A guide to the New Zealand Emissions Trading Scheme: 2026 update

Design, evolution, and current state

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April 2026

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Document information

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Acknowledgements

This work was done under Motu Research's programme Shaping New Zealand's Low-Emission Future, with funding support from the New Zealand Ministry for the Environment. The author thanks the reviewers for their feedback and Twofold Design for design support.

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DOI: 10.29310/ETSGUIDE.2026

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1. Introduction

Emissions trading is a tool for sending price signals to producers, consumers, and investors to encourage and enable them to reduce the greenhouse gas (GHG) emissions contributing to climate change. Globally, there were 37 emissions trading systems in force, 12 under development, and 12 under consideration as of August 2025.[1]

The New Zealand Emissions Trading Scheme (NZ ETS) began operation in 2008. Across successive governments, the scheme has been a principal element of the policy response to climate change in Aotearoa New Zealand. Enabling credible markets to support the climate transition is one of five core pillars under the Government's 2024 climate strategy for meeting its targets to reduce the impact of climate change and prepare for its future effects.

This guide explains how the NZ ETS works, describes the core design features of the system, and examines how and why they have evolved over time. As national circumstances change, so too will the NZ ETS. This guide primarily offers a snapshot of how the system operates as of March 2026. It references forthcoming policy changes that had been announced by the Government as of that date, but it does not provide independent analysis and recommendations for how the system might evolve in the future.

2. How emissions trading works

An ETS sets a regulatory limit on emissions by covered sectors and translates that limit into a market price on goods and services, increasing incentives to reduce, avoid, or remove emissions. This is achieved through the **issuance** of emissions units by the Government, the **trading** of emissions units by ETS participants in a marketplace, and the **surrender** of emissions units to the Government by those participants with emissions unit obligations. The associated compliance cost generates a **price signal** to incentivise lower emissions. These steps are illustrated in Figure 1 and discussed in turn below.

Issuance

The Government issues emissions units in line with climate change targets. An emissions unit is an allowance to emit 1 tonne of GHG emissions (typically carbon dioxide (CO_2) or carbon dioxide equivalent (CO_2e)[2]). The chosen limit is called the emissions cap. Depending on system design, ETS participants can potentially acquire emissions units by:

- Receiving them for free
- Buying them from other participants (incentivising others to reduce their emissions and sell surplus units)
- Buying them at auction (generating government revenue that can be returned to the economy)
- Earning them by ETS removal activities (which draw down and store GHGs from the atmosphere using nature-based or technological approaches)
- Buying them from external offset mechanisms (domestic or international) or through international trading.

Trading

ETS market participants who acquire emissions units as described above have the option to bank them, sell them to other market participants, or surrender them to the Government to cover their emissions obligations. The balance between the supply of and demand for emissions units in the market drives the emissions price. To the extent emissions unit demand exceeds supply, emissions prices rise. Depending on system design, eligible parties without obligations to surrender emissions units can still participate in buying and selling emissions units.

Surrender

In each ETS sector, the Government requires specific parties to surrender to the Government sufficient emissions units to cover the emissions for which they are liable. Obligated participants must choose between reducing their own emissions, surrendering emissions units they already hold, or buying emissions units in the market. Obligated participants must report their emissions and surrender emissions units to the Government on a regular basis (e.g. annually). This obligation imposes a direct cost – or an opportunity cost – on those participants in line with their emissions.

Price signal

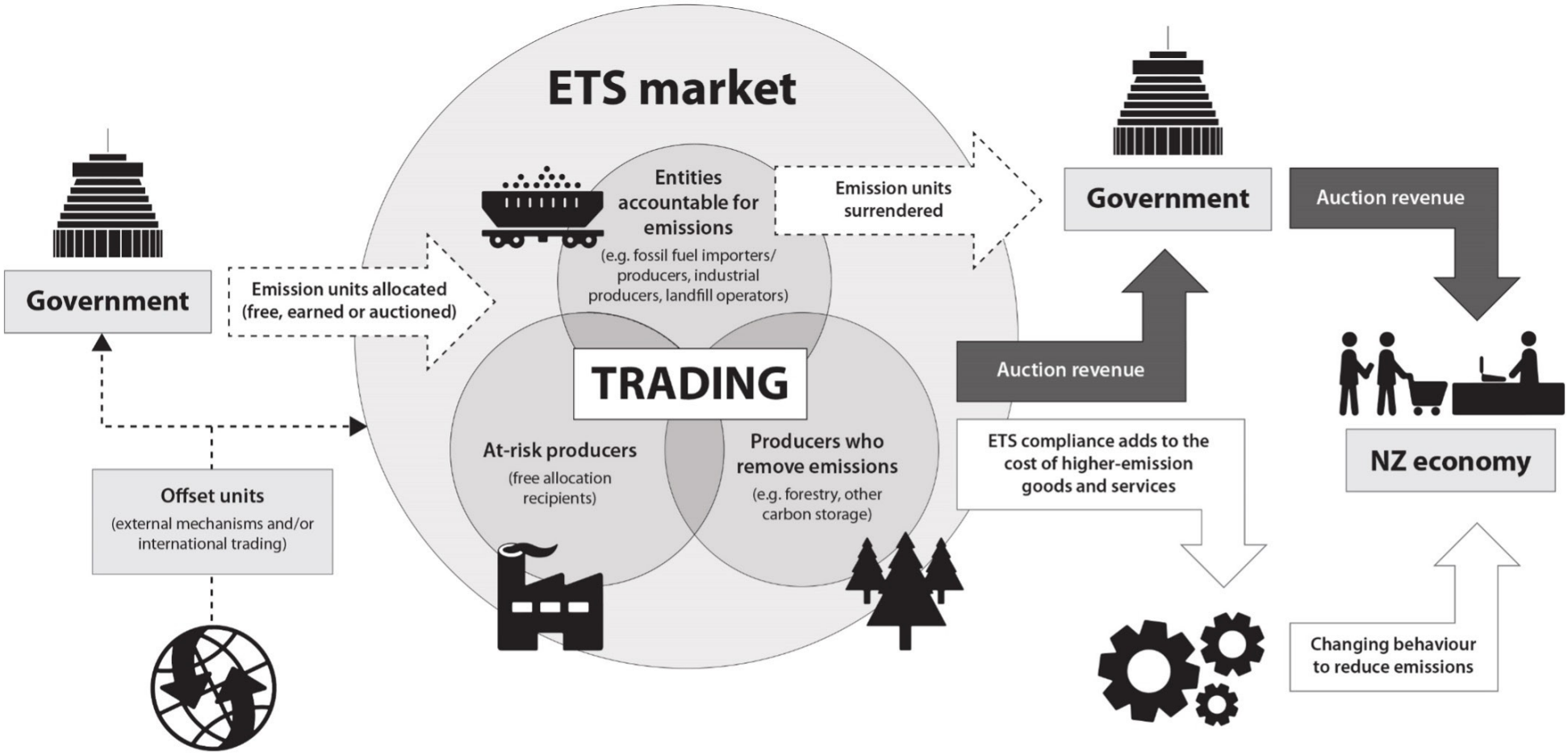
The cost to obligated parties of either reducing their emissions or surrendering emissions units gets passed down the supply chain through the price of goods and services. This has the effect of:

- Raising the relative cost of higher-emissions goods and services
- Making lower-emissions behaviour more competitive
- Creating an incentive for businesses and consumers to reduce or avoid emissions.

Unlike directive regulations, an ETS allows people in businesses and households to apply their own information about costs and preferences and decide whether and how to reduce emissions. This lets them seek out least-cost emissions reduction opportunities across the participating sectors. Having a clearly defined trajectory for emissions unit supply under the ETS cap in line with climate change targets helps covered sectors and the broader economy to plan for the future.

Emissions trading can be an important part, but should never be the only part, of an effective strategy for reducing emissions. In Aotearoa New Zealand's context, companion policies are needed to help overcome non-price barriers to change. Examples include split incentives (e.g. between landlords and tenants), consumer preferences, risk aversion, supply chain constraints, high upfront capital costs, and insufficient information, training, financing, and/or infrastructure. An ETS with a socially acceptable emissions price will not be sufficient to drive high-cost technology innovation and commercialisation. Complementary policies are also required to ensure consistency of mitigation activities with adaptation needs, achieve sectoral priorities beyond climate change (such as energy security), mitigate regressive impacts of emissions pricing, ensure a just transition that safeguards wellbeing, give effect to te Tiriti o Waitangi/the Treaty of Waitangi, and safeguard the interests of future generations.[3]

Figure 1: How emissions trading works



Note: This figure presents a generalised overview of how emissions trading works. The key players are the Government which issues emissions units, ETS market participants who trade emissions units and/or surrender emissions units for compliance, and businesses and households which receive an emissions price incentive to choose lower-emission goods, services, and activities. External offset mechanisms and/or international trading may also supply emissions units. Design details vary by system. As of March 2026, the NZ ETS is not directly linked to any ETS in another jurisdiction or any offshore offset mechanisms.

3. A brief policy history of the NZ ETS

The NZ ETS was first legislated under the Climate Change Response (Emissions Trading) Amendment Act 2008. This followed more than a decade of consideration of emissions pricing by successive governments, and the formal start of design in April 2007. Under the current Climate Change Response Act 2002 (CCRA),[4] the NZ ETS has the dual purpose of assisting New Zealand to:

1. Meet its international obligations under the United Nations Framework Convention on Climate Change, the Kyoto Protocol, and the Paris Agreement (see Table 1)
2. Meet its 2050 emissions reduction target and emissions budgets.

Table 1: New Zealand's international climate change targets

PERIOD	INSTRUMENT	TARGET
2008–2012	Kyoto Protocol	Reduce net emissions over 2008–2012 to five times gross emissions in 1990
2013–2020	UN Framework Convention on Climate Change	Reduce net emissions in 2020 to 5% below 1990 gross emissions; achieve an emissions budget starting from 2010 net target emissions
2021–2030 (initial)	Paris Agreement	Reduce net emissions in 2030 to 30% below 2005 gross emissions; achieve an emissions budget starting from 2017 net target emissions
2021–2030 (revised)	Paris Agreement	Reduce net emissions in 2030 to 50% below 2005 gross emissions; achieve an emissions budget starting from 2020 net actual emissions[5]
2031–2035	Paris Agreement	Reduce net emissions in 2035 to 51–55% below 2005 gross emissions; single-year target only

The NZ ETS was the first ETS in the world intended to cover all economic sectors and major GHGs over time. It took effect retrospectively from 1 January 2008, with sectors assuming emissions reporting and unit obligations in stages. As of March 2026, the system applies unit obligations to about 47% of Aotearoa New Zealand's gross domestic emissions.[6] It covers most domestic emissions from fossil fuels, industrial processes, and waste. It applies both mandatory unit obligations for emissions from deforestation and voluntary units for removals from eligible afforestation and industrial activities. Reporting of biogenic emissions from agricultural activities (animal production and synthetic fertilisers)[7] was required under the NZ ETS from 2012 until 2024, but unit obligations were never applied to those emissions. Biogenic emissions from agriculture were removed from the NZ ETS by a legislative amendment in 2024. The NZ ETS allowed trading of units to and from the international Kyoto market from 2008 to mid-2015, at which point it de-linked. It currently operates as a domestic-only system.

The NZ ETS has had a series of reviews and major amendments.[8] The first review followed a change in government in November 2008 and led to the Climate Change Response (Moderated Emissions Trading) Amendment Act 2009, which moderated the price impact of the system. The second review was done by statutory requirement in 2011. This led to the Climate Change Response (Emissions Trading and Other Matters) Amendment Act 2012, which indefinitely extended the price moderation measures. The third review was done in two stages starting in 2015. The first stage resulted in the Climate Change Response (Removal of Transitional Measure) Amendment Act 2016, which phased in a full one-for-one unit obligation in non-forestry sectors for the period 2017–2019. In mid-2017, the Government announced in-principle policy decisions to change post-2020 NZ ETS settings for unit supply, price management, and linking. These were not legislated before the election in September 2017.

In November 2019, the Climate Change Response (Zero Carbon) Amendment Act 2019 (ZCA) was passed. It set a new GHG target for 2050, providing for five-year emissions budgets and emissions reduction plans and establishing an independent advisory Climate Change Commission. Under the initial 2050 target:

- Biogenic methane emissions[9] were to be reduced at least 10% below 2017 levels by 2030 and 24–47% below 2017 levels by and beyond 2050
- All other GHGs were to reach net zero by and beyond 2050.

The first three emissions budgets (covering 2022–2035) and first emissions reduction plan (covering 2022–2025) were announced in December 2022.[10] The second emissions reduction plan (covering 2026–2030)[11] – and an amended first emissions reduction plan[12] – were announced in December 2024. In January 2026, the Government announced an amended second emissions reduction plan.[13]

In conjunction with the ZCA framework, the Climate Change Response (Emissions Trading Reform) Amendment Act 2020 enacted substantial changes to unit supply, price management, industrial free allocation, forestry accounting, pricing of biogenic emissions from agriculture, and coordination of future decisions on key settings. The combined amendments over 2019–2020 provided for future government decisions on NZ ETS unit supply and price settings to be guided by overarching decisions on emissions budgets and emissions reduction plans and informed by independent advice from the Climate Change Commission.

Under the 2020 amendments, emissions pricing for biogenic emissions from agriculture was to begin under the NZ ETS by default no later than 1 January 2025. In addition, the Government was required to prepare a report on an alternative pricing system for biogenic emissions from agriculture by December 2022.[14] This was informed by input from He Waka Eke Noa[15] – the Primary Sector Climate Action Partnership launched in 2019

– and statutory advice from the Climate Change Commission[16] as well as previous advice from the Interim Climate Change Committee.[17] In August 2023, the Government announced a plan to implement farm-level pricing of biogenic agricultural emissions under a separate levy, with pricing to begin in the fourth quarter of 2025.[18] The plan included future recognition of on-farm sequestration in the NZ ETS. In October 2023, the Government decided to defer legislated farm-level reporting obligations for agricultural emissions until 2026 (with pricing to start in 2027) through an Order in Council.[19] Following the election in October 2023, the policy intention to price agricultural emissions was first deferred and then discontinued under the new Government.

The Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Act 2023 introduced changes to industrial allocation to reduce over-allocation and adjusted the penalties framework for small forestry participants.

Since the change in government in 2023, three major amendments to the NZ ETS have been enacted.

- The Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Act 2024 removed NZ ETS emissions reporting and unit obligations for biogenic emissions from agriculture.
- The Climate Change Response (Emissions Trading Scheme—Forestry Conversion) Amendment Act 2025 restricted ETS registration of exotic forests on Land Use Capability (LUC) classes 1–6 farmland, subject to exclusions and transitional provisions (discussed further below).
- The Climate Change Response (2050 Target and Other Matters) Amendment Act 2025 lowered the 2050 target for biogenic methane to 14–24% below 2017 levels (previously 24–47%). That target must be reviewed by December 2040. The deadline for setting the emissions budget for 2036–2040 was extended from December 2025 to December 2027. When setting future emissions budgets, the Government must have regard to the implications, or potential implications, for domestic food production. The Act also removed the requirement for NZ ETS unit supply and price control settings to be in accordance with New Zealand's relevant Nationally Determined Contribution(s) (NDC) under the Paris Agreement.

As of March 2026, the Government had also agreed in principle to future CCRA amendments. In May 2025, it announced decisions on market governance to improve reporting of trading information and ensure proper market conduct.[20] In November 2025, it announced a series of further changes, including:

- Adding "carbon removal activities" as an activity that can be recognised under the NZ ETS, to simplify the process for future recognition
- Adding the import of carbon dioxide as a recognised activity
- Removing statutory reviews of allocative baselines and eligibility for industrial allocation
- Providing for government decisions (and Climate Change Commission advice) on NZ ETS unit supply and price settings over the next five years to be made on a biennial instead of annual basis
- Removing the requirement for the Climate Change Commission to provide specific advice on the direction of policy for emissions reduction plans for achieving emissions budgets
- Removing the Minister of Climate Change's public consultation requirements for deciding on emissions budgets (note this does not affect the requirement under section 5N for the Climate Change Commission to engage with relevant parties and, where considered necessary, provide for participation by the public)
- Removing the requirement under section 5W for emissions budgets to be set with a view to contributing to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5° Celsius above pre-industrial levels (note this does not affect the requirement under section 5W for emissions budgets to be set with a view to meeting the 2050 target).[21]

As of March 2026, the Waitangi Tribunal is undertaking a priority kaupapa inquiry with a focus on how Māori are affected by climate change, and how Māori are being affected by Crown conduct in response to climate change (Wai 3325). The Waitangi Tribunal Statement of Issues (2024) listed sub-issues related to the NZ ETS under the question, "Has the Crown's conduct (including actions and omissions) in response to climate change been consistent with Tiriti/Treaty principles?" A particular focus was the consideration under the NZ ETS of Māori interests, assets, and impacts in relation to forestry.

Major policy milestones from April 2007 through January 2026 are listed in the table below.

Table 2: Major policy milestones for the NZ ETS: April 2007 to January 2026

2007	Apr	Government's Emissions Trading Group began NZ ETS design
2008	Jan	Forestry sector assumed unit obligations (retrospectively)
	Sep	Passage of the Climate Change Response (Emissions Trading) Amendment Act 2008
	Nov	New Government began the first NZ ETS review
2009	Jan	Transport sector began voluntary reporting
	Nov	Passage of the Climate Change Response (Moderated Emissions Trading) Amendment Act 2009
2010	Jan	Stationary energy, industrial process, and transport sectors began mandatory reporting
	Jul	Stationary energy, industrial process, and transport sectors assumed unit obligations
	Dec	Government began the second NZ ETS review
2011	Jan	Waste, synthetic gas, and agriculture sectors began voluntary reporting
	Dec	Ban on surrendering industrial-gas Certified Emissions Reductions (CERs) took effect
2012	Jan	Waste, synthetic gas, and agriculture sectors began mandatory reporting
	Nov	Passage of the Climate Change Response (Emissions Trading and Other Matters) Amendment Act 2012
	Dec	Ban on surrendering industrial-gas Emissions Reduction Units (ERUs) and large-scale-hydro ERUs/CERs took effect
2013	Jan	Waste and synthetic gas sectors assumed unit obligations
	Dec	Government announced future de-linking of the NZ ETS from the Kyoto market
2014	May	Passage of the Climate Change Response (Unit Restriction) Amendment Act 2014
2015	Jun	NZ ETS de-linked from the Kyoto market
	Nov	Government began the third NZ ETS review
2016	May	Passage of the Climate Change Response (Removal of Transitional Measure) Amendment Act 2016
	Oct	Government ratified the Paris Agreement and submitted a 2030 NDC

2019	Nov	Passage of the Climate Change Response (Zero Carbon) Amendment Act 2019
2020	Jun	Passage of the Climate Change Response (Emissions Trading Reform) Amendment Act 2020
2021	Jan	Phase-down of industrial allocation began at a rate of 1% per year
	Mar	Quarterly auctioning of New Zealand Units (NZUs) began
	May	Government announced the Climate Emergency Response Fund, supported by NZ ETS auction proceeds
	Jun	Fixed-price option no longer applied
	Nov	Government announced a revised 2030 NDC
2022	May	Government announced the first three emissions budgets (2022–2035) and first emissions reduction plan (2022–2025)
	Nov	Passage of the Climate Change Response (Extension of Penalty Transition for Forestry Activities with Low Volume Emissions Liabilities) Amendment Act 2022
	Dec	Government published its section 215 report on pricing agricultural emissions
2023	Jan	Post-1989 forest classifications as standard or permanent in full effect
	Jun	Government began a non-statutory NZ ETS review
	Jul	Government reconsidered, and subsequently updated, the 2022 NZ ETS unit limit and price control settings as a result of judicial review
	Aug	Government announced a plan for a farm-level levy on agricultural emissions to take effect from Q4 2025
	Aug	Passage of the Climate Change Response (Late Payment Penalties and Industrial Allocation) Amendment Act 2023
	Oct	Government deferred NZ ETS farm-level reporting obligations for agricultural emissions until January 2026, and unit obligations until January 2027
	Oct	Annual charge increase took effect for post-1989 forestry in the NZ ETS
	Dec	New Government stopped work on the non-statutory NZ ETS review
2024	Jan	New allocative baselines came into effect for industrial allocation
	Feb	Waitangi Tribunal granted priority for a kaupapa inquiry into climate change policy (Wai 3325) (ongoing in 2026)
	May	Government announced the end of the Climate Emergency Response Fund
	Jun	Government cancelled the annual charge for post-1989 forestry for 2023/24
	Nov	Passage of the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Act 2024
	Dec	Government released the second emissions reduction plan (2026–2030) and an amended first emissions reduction plan (2022–2025)

2025	Jan	Annual charge decrease took effect for post-1989 forestry in the NZ ETS
	Jan	Government announced a 2035 NDC
	Feb	Government announced a framework for carbon capture, utilisation, and storage (CCUS)
	May	Government announced new market governance measures to be legislated
	Sep	Passage of the Climate Change Response (Emissions Trading Scheme—Forestry Conversion) Amendment Act 2025
	Nov	Government announced a package of changes to the CCRA and published an assessment framework for carbon removals
	Dec	Passage of the Climate Change Response (2050 Target and Other Matters) Amendment Act 2025
2026	Jan	Government released an amended second emissions reduction plan (2026–2030)

Note: See the Annex for an explanation of acronyms.

4. Core design features

4.1. NZ ETS at a glance

Table 3: Summary of NZ ETS features as of March 2026

Commencement	• Effective from 1 January 2008; founding legislation passed in September 2008
Sectoral coverage	• Stationary energy, transport, industrial processes, waste, and forestry (deforestation/afforestation) (subject to some exclusions) • All GHGs (CO_2, CH_4, N_2O, HFCs, PFCs, and SF_6) from covered sectors
Point of obligation	• Energy sector: Upstream where feasible; major fuel users can opt into obligations • Other sectors: Point of emissions/removals unless designated otherwise
ETS unit supply	• NZUs issued via auctioning, free allocation, and entitlements for removals • Individual limits on auctioned and overseas units; overall limit on the sum of auctioned and overseas units and units available by other means (e.g. free allocation) without restricting the latter • Free allocation and cost containment reserve units that cause an emissions budget to be exceeded must be backed by additional mitigation
Unit obligation	• One unit per tonne of CO_2e emissions
Free allocation	• Output-based free allocation for emissions-intensive and trade-exposed industrial producers • Fixed free allocation for pre-1990 forestry and fishing sectors (in the past)
Price management and banking	• Auction reserve price and confidential reserve price • Two-tier fixed-volume cost containment reserve with a trigger price at auction • Banking but no borrowing
Linking and offsets	• Currently a domestic-only system with no external offsets
Monitoring, reporting, verification, and compliance	• Annual reporting and compliance periods for most sectors; option for multi-year reporting for post-1989 forestry • Use of default and unique emissions factors • Self-assessment of emissions with potential for government audit • Penalties apply for failure to surrender/repay units and report emissions
Legislation	• Climate Change Response Act 2002 and associated regulations
Institutional arrangements	• Ministry for the Environment leads policy oversight • Ministry for Primary Industries administers the forestry sector • Environmental Protection Authority administers non-forestry sectors plus the registry and compliance for all sectors • Climate Change Commission provides independent advice

4.2. Sectoral coverage and point of obligation

Current features (2026)

Obligations to both report emissions and surrender emissions units apply to the following sectors:

- forestry
- stationary energy (electricity and heat)
- transport (liquid fossil fuels)
- industrial processes
- synthetic GHGs[22]
- waste.[23]

The system excludes synthetic GHGs (HFCs and PFCs) in imported products, which are subject instead to a levy derived from the NZU value. Emissions from deforestation of pre-1990 forest land carry unit liabilities and entities can opt to receive units for removals from post-1989 afforestation. Entities can opt to receive units for removals from embedding emissions in products,[24] or destroying or exporting synthetic GHGs. The CCRA provides for recognition of removals from storing carbon dioxide after capture; however, this has not been operationalised by regulations to date.[25]

In February 2025, the Government announced decisions on a CCUS framework to enable businesses that capture and store GHGs to be rewarded under the NZ ETS.[26] In November 2025, the Government announced its intention to recognise further types of removals and the import of carbon dioxide as NZ ETS activities[27] and released an assessment framework for carbon removals.[28] These changes will require legislative amendments.[29]

The system covers CO_2, CH_4, N_2O, HFCs, PFCs, and SF_6 from covered sectors (see the annex for more information). These are converted to CO_2e using the same methodology as in New Zealand's national GHG inventory.

The entities with NZ ETS unit and/or reporting obligations (referred to as "points of obligation") are defined by activity and subject to minimum thresholds. Energy-sector obligations generally apply upstream of emissions at the point of fuel production or import. Major fuel users can opt in as points of obligation with a corresponding carve-out of the upstream obligation.

In other sectors, obligations generally apply at the point of emissions or removals (see Table 4).

Changes over time

In the 2008 design of the NZ ETS, all economic sectors were to assume unit obligations in stages from 2008 to 2013. Some sector entry dates were adjusted in 2009. The synthetic GHG levy was established in the 2012 amendments. The 2020 amendments provided for the introduction of a new voluntary permanent forestry activity for post-1989 forests from 2023.

Biogenic emissions from agricultural activities (animal production and synthetic fertilisers) originally carried mandatory emissions reporting obligations from January 2012 and unit obligations were to commence in January 2013. Those obligations were initially deferred until 2015 (subject to review) in the 2009 amendments and then deferred indefinitely in the 2012 amendments. As discussed in section 3, the 2020 amendments provided for biogenic emissions from agriculture to face an emissions price no later than 1 January 2025 under either the NZ ETS (by default) or an alternative pricing system for farm-level emissions. Over 2022 and 2023, the Government made a

series of decisions to defer unit obligations for agricultural emissions.[30] In 2024, the Government removed biogenic agricultural emissions from the NZ ETS. The initial second emissions reduction plan covering 2026–2030 – published in December 2024 – provided for pricing of agricultural emissions outside the NZ ETS to begin by 2030.[31] The amended second emissions reduction plan – published in January 2026 – stated that the Government would no longer introduce an on-farm emissions pricing system by 2030.[32]

Emissions reporting obligations for the agriculture sector originally applied at the processor level.[33] If the sector had assumed NZ ETS unit obligations in 2025, as legislated in 2020, they would have applied by default to processors for fertiliser and farmers for animals.

Rationale and practical outcomes

Broad coverage of sectors and GHGs was intended to support least-cost mitigation, equity, and environmental integrity — as well as help achieve economy-wide targets. Aotearoa New Zealand's emission profile is dominated by biogenic emissions from agriculture (53% of gross CO_2e emissions in 2023) and energy (38%) while net forest sequestration offsets about 26% of gross emissions.[34]

The Government's rationale for deferring unit obligations for agriculture in 2009 and 2012 included a lack of cost-effective mitigation options and competitiveness concerns.[35] The 2020 amendments to proceed with pricing biogenic agricultural emissions from 2025 (with the backstop option of inclusion in the NZ ETS) were influenced by the ambition of the country's domestic and international targets, the desire for all sectors to contribute to climate action, and the administrative challenges of enabling farmer-level pricing for animal emissions.[36]

Decisions in 2022 and 2023 to delay the pricing of agricultural emissions were to allow more time for development of an alternative pricing system.[37] In the 2024 amendments, the Government's rationale for removing biogenic agricultural emissions from the NZ ETS included the inability of processor-level obligations to incentivise changes in on-farm behaviour, the inconsistency of applying a single price to all gases under a split-gas domestic target, the administrative complexity of bringing farmers into the system, the compliance costs to farmers, and competitiveness concerns.[38] At that time, the Government's policy was to introduce agricultural emissions pricing outside the NZ ETS no later than 2030. As noted above, the Government reversed this intention in the amended second emissions reduction plan.[39]

The Government has initiated a process for recognising additional types of removal activities in the NZ ETS – both biogenic and engineered – to provide assurance that these activities will have environmental integrity and contribute toward meeting the country's domestic and international climate targets.

Table 4: Sector coverage and points of obligation in the NZ ETS as of March 2026

SECTOR (start of unit obligations)	POINTS OF OBLIGATION IN THE NZ ETS
Forestry (1 January 2008)	• Owner of forest land; forest owner with the agreement of the landowner
Liquid fossil fuels (1 July 2010)	• Owner of obligation fuel at the point where fuel goes through Customs and enters the market; large users can opt in with upstream carve-out
Stationary energy (1 July 2010)	• Point of fuel production or import for coal and natural gas; large users can opt in with upstream carve-out • Point of use for geothermal fluid • Point of waste combustion • Point of petroleum refining involving the use of intermediate crude oil products for energy or feedstock purposes • Point of use of crude oil or other liquid hydrocarbons
Industrial processes (1 July 2010)	• Point of production; producers of products with embedded substances can opt in
Synthetic gases (1 January 2013)	• Point of import, manufacture, or equipment operation • Point of export or destruction for removal activities
Waste (1 January 2013)	• Landfill operator

Points of obligation were selected to keep compliance and administrative costs low, cover as many emissions as practicable, enable effective monitoring and verification, and give appropriate emissions-reduction incentives. The system pioneered upstream points of obligation in the stationary energy and transport sectors.[40] As of December 2025, the system covered almost all the fossil fuel, industrial process, and waste sectors, with 147 mandatory participants in those sectors. Nine downstream entities that purchased liquid fossil fuels, three that purchased coal, and two that purchased natural gas had opted into direct unit obligations. Mandatory obligations applied to 38 participants that deforested pre-1990 forest land. For optional removal activities, there were 4,317 participants in standard post-1989 forestry activities, 1,513 participants in permanent post-1989 forestry activities, and 21 participants in industrial removal activities.[41]

4.3. Forestry sector profile

Inclusion of the forestry sector in the NZ ETS with mandatory emissions liabilities and the option to earn units for removals (an ETS world first) was intended to both discourage deforestation and incentivise afforestation. Deforestation had accelerated in Aotearoa New Zealand in the lead-up to the first Kyoto commitment period (2008–2012). Applying an emissions price to the forestry sector with effect from 1 January 2008 proved an effective deterrent to deforestation and stimulated afforestation investment – predominantly in exotic species – while emissions prices were sufficiently high.[42]

By applying a nationwide sectoral approach with a single base year and a long-term compliance framework, the NZ ETS has avoided many of the challenges associated with project-based forest offset mechanisms used in some other ETSs, such as determining project baselines and accounting for leakage and non-permanence. To date, NZ ETS forestry definitions have generally mirrored international rules to help meet the country's international targets.[43]

Forestry activities and accounting

The system applies activity-based accounting using a 1990 reference year to distinguish additional from business-as-usual changes in forest carbon stocks, reflecting pre-1990 land-use decisions. Carbon stock changes from management of pre-1990 forest, old-growth indigenous forest remaining in forest, fruit and nut trees, and small-scale tree planting[44] are excluded from the NZ ETS.

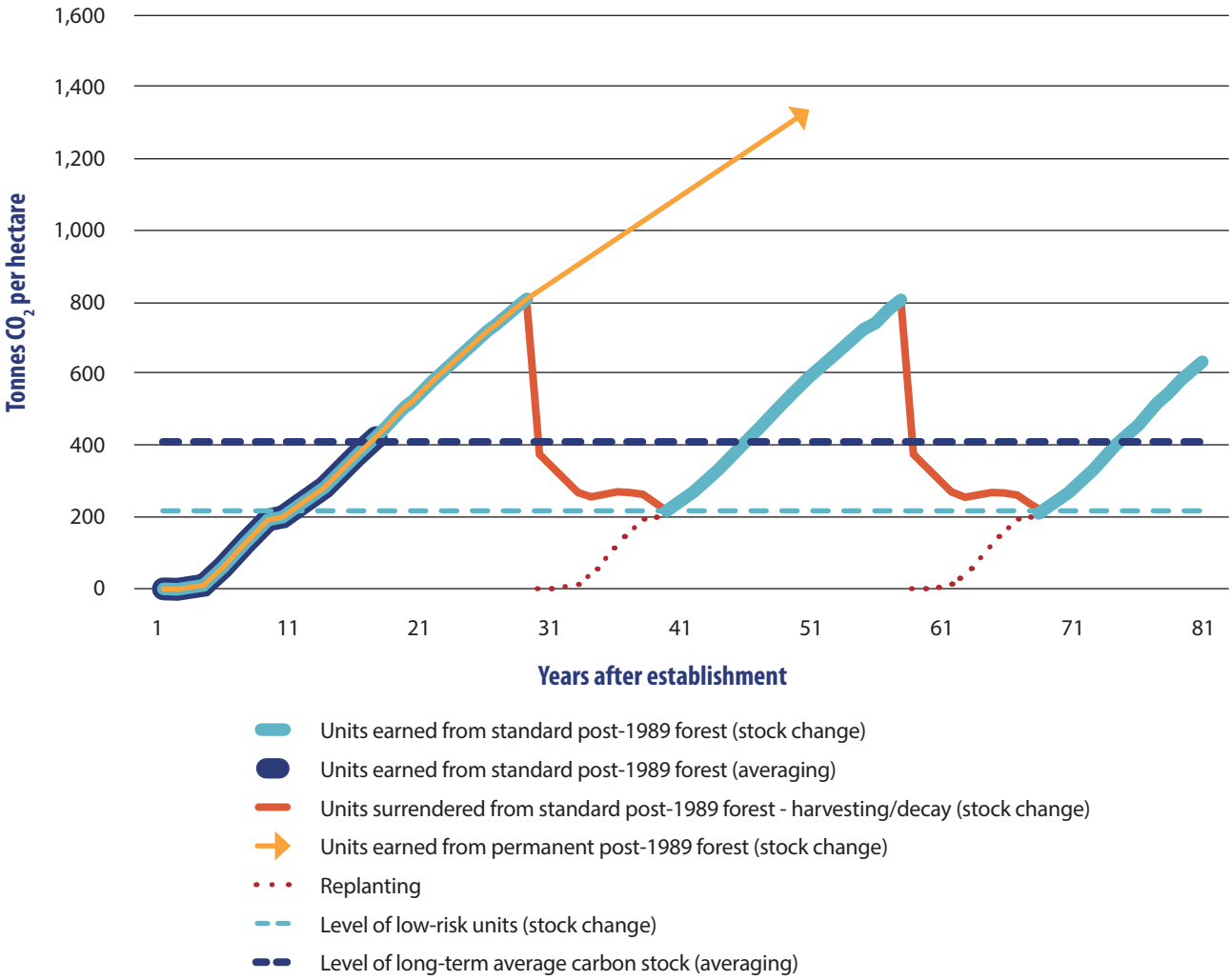
NZ ETS forestry obligations apply as follows.

- Pre-1990 forestry participants are liable for deforestation emissions unless they qualify for an exemption.[45] They are not liable for harvesting emissions if replanting occurs.
- Post-1989 forestry participants who opted into the NZ ETS before 2019 earn units as the forest grows and must surrender units to cover emissions from harvesting or deforestation (referred to as stock change accounting). The number of earned units that are less likely to carry future surrender obligations due to harvesting can be considered low-risk (or safe) units for trading to other participants.
- From 1 January 2023, post-1989 forestry participants have the option to register their forests as standard or permanent.
    - Standard post-1989 forests apply averaging accounting, meaning participants earn units as the forest grows up to the long-term average level of carbon stocks over multiple forest rotations. They do not face subsequent unit liabilities for harvesting or earn units for replanting after harvesting but remain liable for deforestation.
    - Permanent post-1989 forests are restricted from deforestation and clear-fell harvesting for at least 50 years and earn units using stock change accounting. Permanent post-1989 forests can only be removed from the ETS within the 50-year period with approval from the Minister of Climate Change. Both permanent and standard forests need to surrender their unit balances upon exiting the system.
    - Post-1989 forestry participants have the option to change their forest classification from standard to permanent.

Forestry participants have the option to avoid deforestation liabilities for pre-1990 forest – and for post-1989 forest under averaging – by establishing carbon-equivalent forest elsewhere. This allows flexibility for forestry participants to make economic land-use decisions while maintaining overall forest carbon stocks. To date, this option (called "forest offsetting") has involved less than 5,000 hectares of pre-1990 deforestation and no hectares of post-1989 forest (see Figure 8).

A transition period applied before the new forestry classifications took full effect in 2023. Post-1989 forests registered from 2019 to 2022 were classified as standard forests by default, with the option to choose between stock change and averaging accounting. Participants in the now-discontinued Permanent Forest Sink Initiative (PFSI)[46] were able to opt into the NZ ETS under standard or permanent categories of post-1989 afforestation or choose to exit the system. Figure 2 illustrates the different approaches to forestry accounting.[47]

Figure 2: Comparison of stock change and averaging accounting in the NZ ETS



Note: Figure 2 compares stock change and averaging accounting for post-1989 standard and permanent forest with *Pinus radiata* in Gisborne. The figure assumes harvesting of standard forest every 28 years and a long-term average carbon stock level after 16 years. Permanent forest will accrue carbon beyond 50 years until it reaches a steady state, but default values are not available. Low-risk units are less likely to be surrendered or repaid unless deforestation occurs or the forest is deregistered from the NZ ETS. Source: Data from Schedule 6 of the Climate Change (Forestry Sector) Regulations 2008; averaging assumptions from Ministry for Primary Industries (2026 n.d.–a).

Emissions reporting

For deforestation of pre-1990 forest, participants must use default carbon stock tables provided in regulations. For post-1989 forest, participants can use either default or participant-specific carbon stock tables. Participants with less than 100 hectares of post-1989 forest must use the default look-up tables. These vary by age, forest type, and (for *Pinus radiata*) region. Participants with 100 hectares or more at any point in a mandatory emissions return period (MERP) must apply the Field Measurement Approach (FMA).[48]

For pre-1990 forests, emissions returns must be submitted when deforestation occurs. For registered post-1989 forests, emissions returns must be submitted within six months after the end of each (typically) five-year MERP, when deforestation occurs, or in other specified circumstances, e.g. following a transmission of interest (land sale). Emissions returns for post-1989 afforestation may be submitted voluntarily in any year. The following MERPs have applied to date: MERP1 (2008–2012), MERP2 (2013–2017), MERP3 (2018–2022), MERP4 (2023–2025), and MERP5 (2026–2030).

From 1 January 2023, post-1989 forestry participants can apply for a temporary adverse event suspension in the event of carbon stock losses following a natural or accidental adverse event.[49] While the provision is in effect, unit allocations are suspended but participants do not have to surrender units for decreases in forest carbon stocks. Eligibility criteria apply and the damaged forest must be re-established within a specified timeframe with the intention to achieve comparable carbon stocks as before the event. When land is permanently affected, it is removed from the NZ ETS and participants do not incur a unit surrender obligation.[50]

Restrictions on exotic forestry

The Climate Change Response (Emissions Trading Scheme—Forestry Conversions) Amendment Act 2025 introduced restrictions on registering exotic post-1989 forest in the NZ ETS. The Government's rationale for the change was to reduce whole-farm conversions to exotic forest for the purpose of registration in the NZ ETS.[51] The restrictions apply to post-1989 forest with predominantly exotic species which is established on LUC[52] classes 1–6 land after 31 October 2025. They do not limit the conversion of farmland to exotic forest for other purposes.

Restrictions do not apply in the case of indigenous forest land, exempt Māori land,[53] high or severe erosion-prone land in a regional or district plan, Crown afforestation land, unmapped land (i.e. not on the national-scale LUC map), or unfarmed land. Transitional exemptions apply in the case where people made investments as part of preparing to plant exotic forest on LUC classes 1–6 land to register in the ETS before 4 December 2024.[54]

In addition, participants are eligible for two optional allowances, which are not mutually exclusive:

- Registering exotic post-1989 forest up to 25% of LUC classes 1–6 land on an individual farm
- Participating in an annual random ballot system for permits to register 15,000 hectares of exotic post-1989 forest per year on LUC class 6 land.[55]

The LUC for a specific area of land can be determined using the national-scale LUC class map from New Zealand Institute for Bioeconomy Science Limited,[56] or a property-scale LUC assessment at own cost using the regulated methodology.

Permits to register LUC class 6 land are specific to each land area and recipient. They cannot be transferred to another land title in the case of subdivision or to someone else (except in the case of estate transfer following the death of the holder).[57] Unused permits expire after 31 December of the third year after issuance. Extensions may be granted in some circumstances.[58]

As noted above, these restrictions on registration of post-1989 forest were intended to limit conversions of high-quality agricultural land – not to limit forest registrations in the NZ ETS. According to government modelling, levels of afforestation in the NZ ETS after the introduction of restrictions were expected to fall within the range of previous projections.[59]

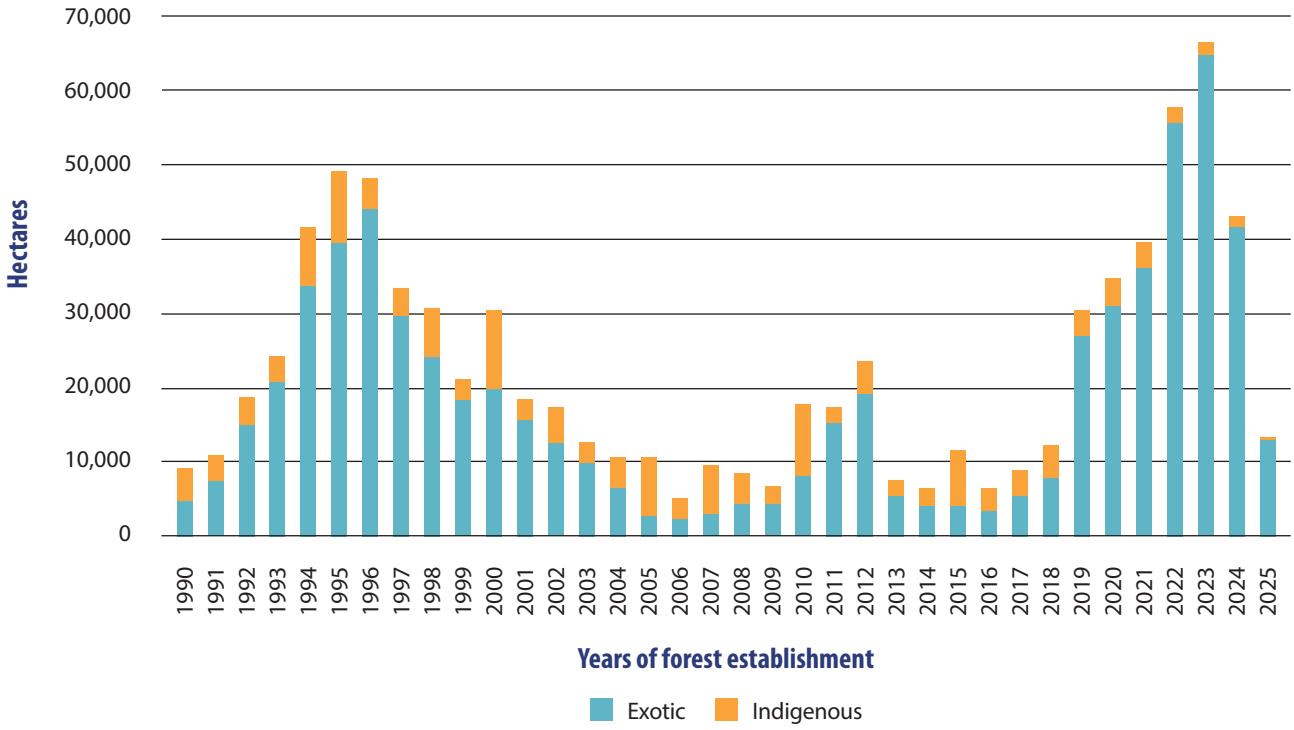
Data on NZ ETS forestry

For context, as of December 2023, Aotearoa New Zealand had 10.1 million hectares of forest, of which 7.7 million hectares were classified as pre-1990 naturally generated forest,[60] 1.4 million hectares were pre-1990 planted forest, and nearly 1 million hectares were post-1989 forest.[61]

As of December 2025, there were approximately 0.8 million hectares of post-1989 forest registered in the NZ ETS. About 62% of the post-1989 forest in the NZ ETS has been registered post-2017.[62]

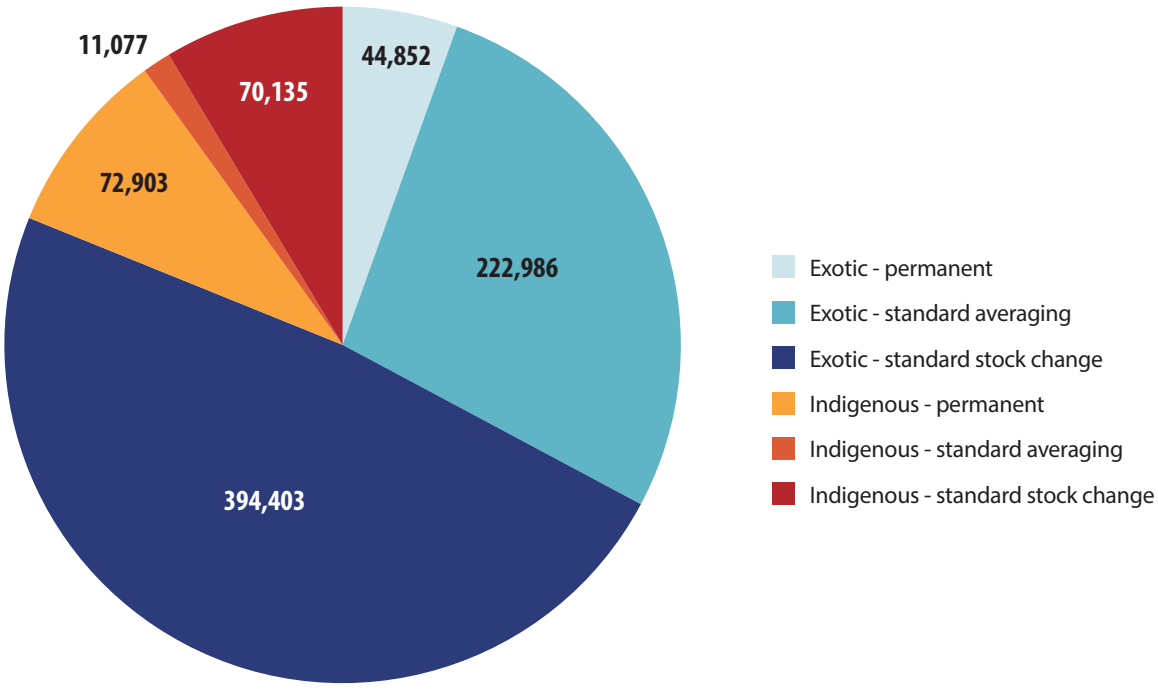
About 81% of post-1989 forest registered in the NZ ETS was exotic, and 19% indigenous. Figures 3 to 6 present data on post-1989 forest registered in the NZ ETS as of December 2025. Figure 3 shows the distribution of registered exotic and indigenous post-1989 forest by the year of establishment. Figure 4 shows the breakdown of registered post-1989 forest by species type and accounting classification. Figure 5 shows how much post-1989 exotic and indigenous forest was registered in each MERP over 2008–2025. Figure 6 shows the trend in approved applications to register post-1989 forest in the NZ ETS alongside the average NZU price by calendar-year quarter over 2015–2025. Figure 7 compares the breakdown of registered post-1989 forest by LUC class in December 2022 and January 2026. Figure 8 shows the uptake of offsetting for deforestation of pre-1990 forest as of December 2025.

Figure 3: Post-1989 forest registered in the NZ ETS as of December 2025 by year of establishment (hectares)



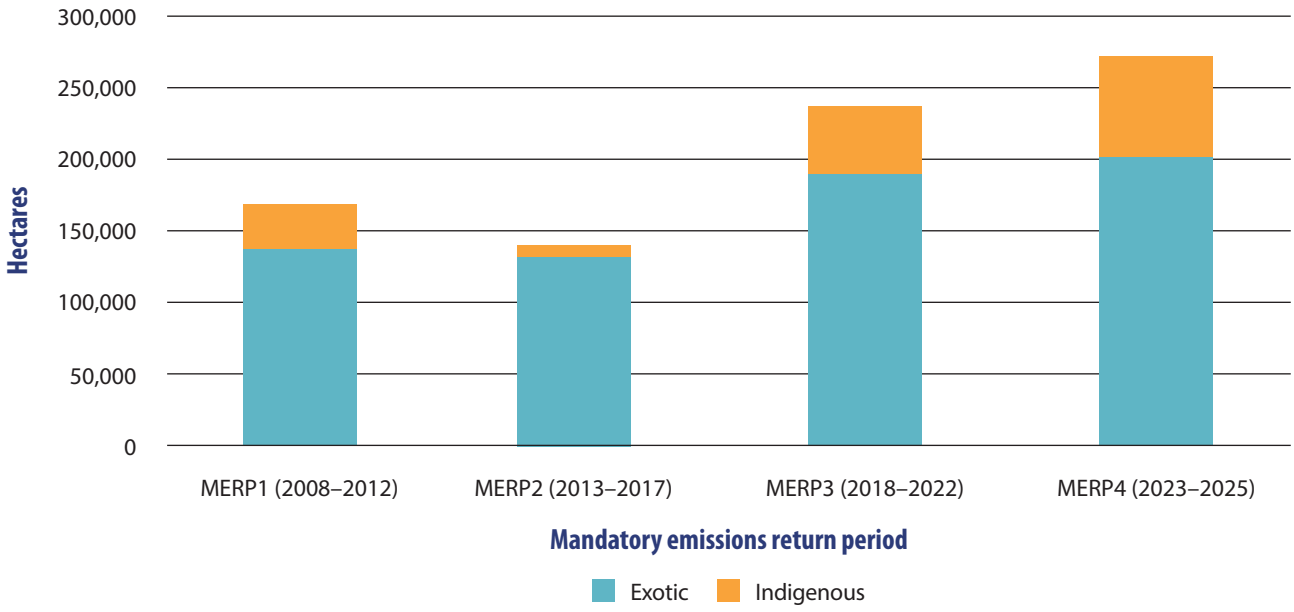
Source: Ministry for Primary Industries (2026b).

Figure 4: Registered post-1989 forest by forest species type and accounting classification as of December 2025 (hectares)



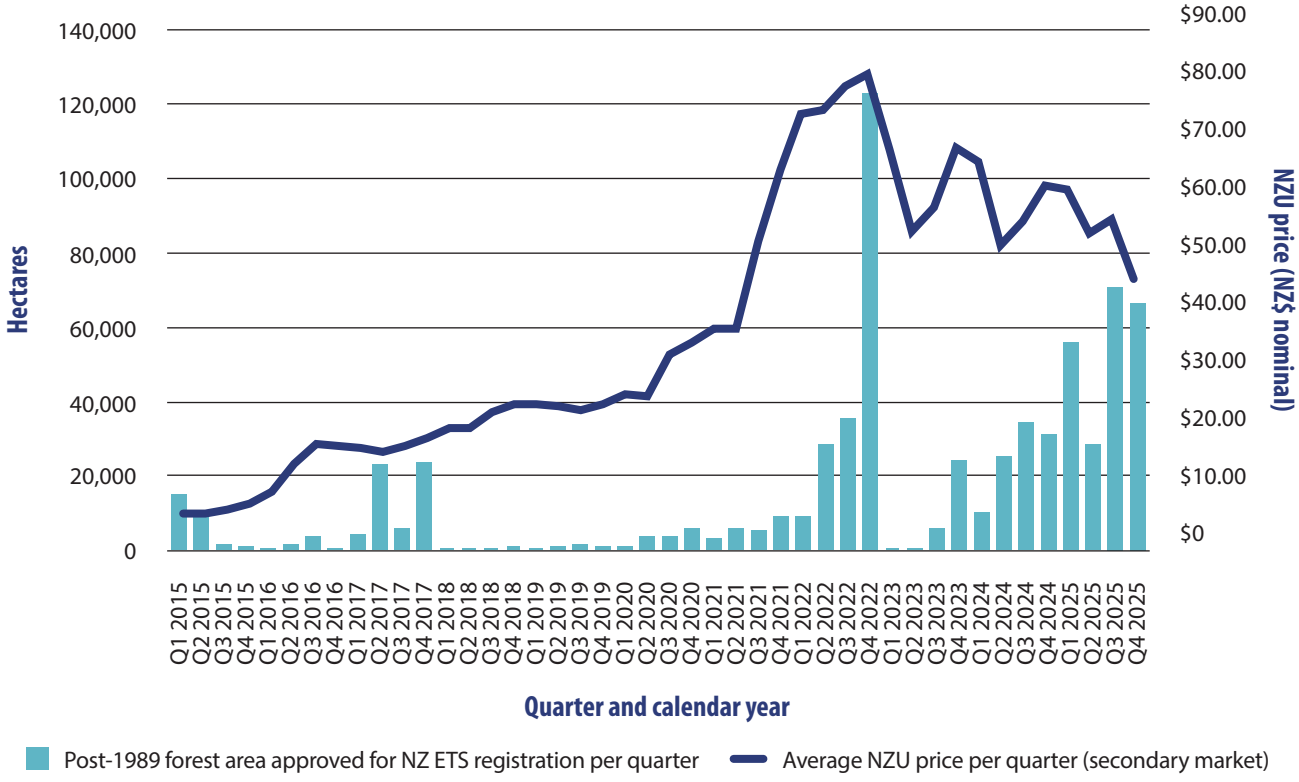
Source: Ministry for Primary Industries (2026b).

Figure 5: Registered post-1989 forest by MERP as of December 2025 (hectares)



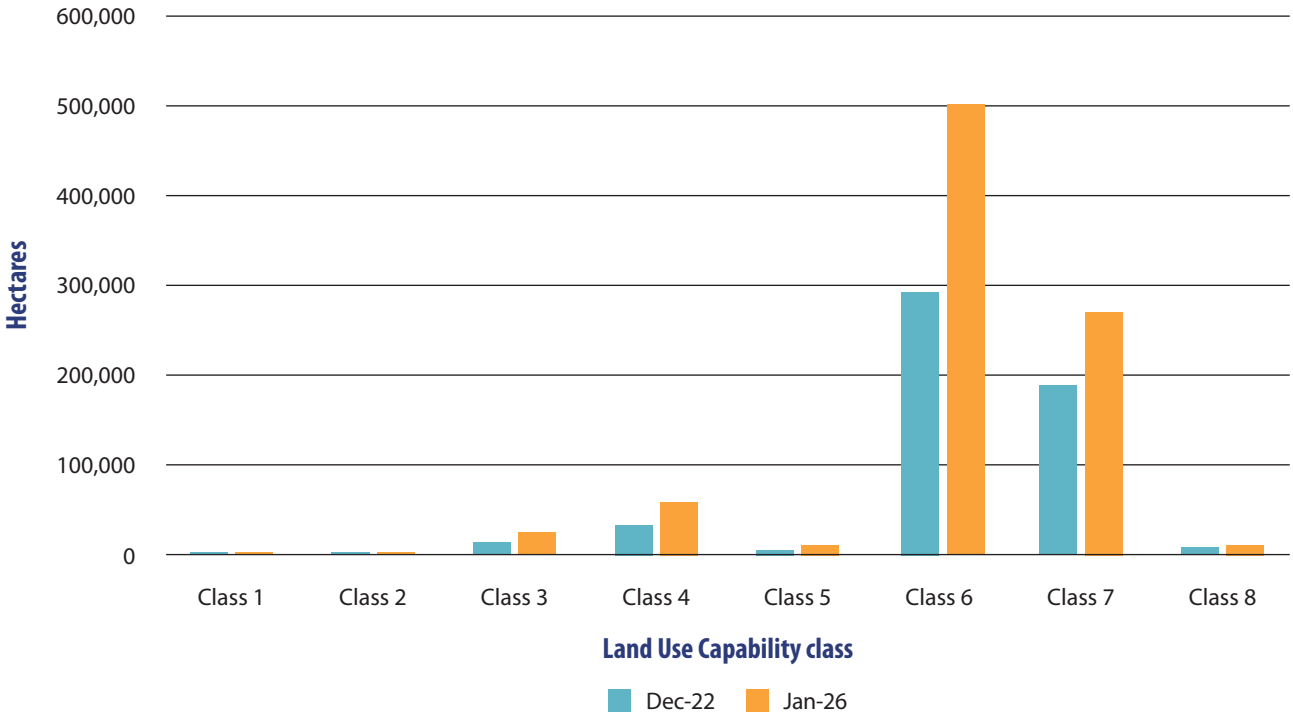
Source: Ministry for Primary Industries (2026b).

Figure 6: Approved applications to register post-1989 forest in the NZ ETS and average NZU prices by calendar-year quarter from 2015 to 2025



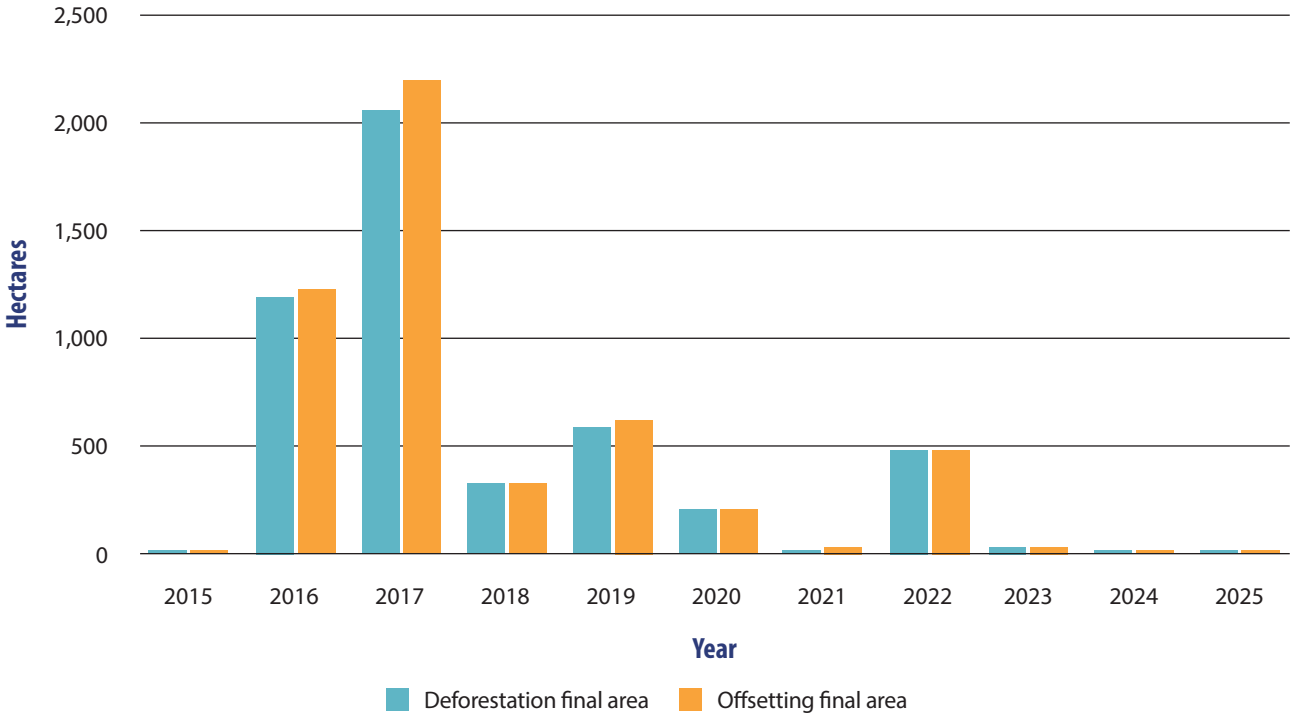
Note: Data may include areas previously registered under the PFSI that transitioned into the NZ ETS after the PFSI closed on 31 December 2023. Source: Data on registered forest area from Ministry for Primary Industries (2026d). Data on NZU prices from OM Financial and Jarden (used with permission).

Figure 7: Registered post-1989 forest by LUC class in December 2022 and January 2026 (hectares)



Source: Ministry for Primary Industries (2026a); Te Uru Rākau (2022).

Figure 8: Uptake of offsetting for deforestation of pre-1990 forest as of December 2025 (hectares)



Note: Following approval, participants are required to submit a notice after four years to confirm they have met the requirements of their application. Source: Ministry for Primary Industries (2026d).

Sector outlook

Policy challenges remain for managing forestry in the NZ ETS in alignment with the country's climate change targets and broader goals for the land sector. The current and projected supply of relatively low-cost post-1989 exotic afforestation is having a dampening effect on NZ ETS emissions prices. This in turn reduces incentives for gross emissions reductions in other sectors. When auction reserve prices exceed secondary market prices, there is low or no demand for units at auction, thereby reducing auction revenue (see sections 4.4 and 4.5). The rapid expansion of exotic forestry combined with negative local impacts of harvesting, the profitability of permanent exotic forestry, and the prospect of high costs and reduced flexibility to change future land use once forest has been registered in the NZ ETS are raising issues of social licence and intergenerational equity.[63]

Further challenges for shaping the forestry sector's contribution to climate change targets include managing the balance between gross and net emissions reductions to achieve the 2050 target, incentivising native forests which grow and earn units more slowly than exotics but offer important co-benefits, and rewarding improved management of pre-1990 forests and small-scale tree planting.[64] Managing the interactions between the NZ ETS market and the evolving voluntary carbon and nature markets involving forestry is another policy area under development.[65]

4.4. Unit supply, unit obligation, and banking

Current features (2026)

NZUs are the primary domestic unit of trade. An NZU represents 1 metric tonne of CO_2e and can cover both emissions and removals. NZUs have no vintage date and do not expire. Each NZU is assigned a unique serial number that records its origin. When issuing NZUs, the Government must consider several matters, including the country's international and domestic climate change obligations and effective operation of the system.

NZUs are issued via government auctioning, free allocation (currently limited to output-based free allocation in the industrial sector – see section 4.7), and entitlements for forestry and other removals. Participants in all sectors must surrender one NZU against each tonne of emissions for which they are liable, and participants in post-1989 forestry and other removal activities earn one NZU per tonne of removals.

Through regulations, the NZ ETS sets sub-limits on auctioning and overseas units[66] within an overall limit on supply that also accounts for units available by other means (i.e. free allocation[67]). The overall limit does not restrict the units available by other means. It therefore does not constrain the issuance of output-based free allocation (see section 4.7). It also does not constrain the volume of units issued for removal activities.

The regulations prescribe the volume of a cost containment reserve (included in the regulated auction volume and overall limit) whose units are released for auction when an auction trigger price is reached (see section 4.5).[68] The overall limit is intended to decline over time in a way consistent with emissions budgets and the 2050 target. To the extent that units from free allocation or the cost containment reserve cause an emissions budget to be exceeded, they must be backed by further emissions reductions generated domestically or offshore.

Auctioning is held on a quarterly basis and operated on behalf of the Government by the NZX Managed Auction Service.[69] Auction participants must have an account in the New Zealand Emissions Trading Register and meet registration requirements. Unsold units at auction are not carried forward across calendar years. Units not sold in any one auction roll over to the next auction within the calendar year. However, starting from

1 January 2026, unsold units that roll over to the next auction are only sold if that auction first clears its newly offered volume.[70] Auctioning generates government revenue which goes to the Crown consolidated fund and is not earmarked in legislation for any specific purpose.

The NZ ETS permits unlimited banking of NZUs but not borrowing of NZUs from future years. However, emissions are reported on a calendar-year basis and compliance units must be surrendered by 31 May in the following year. As a result, industrial allocation recipients can use units received for the previous year's activity (final allocation) or the current year's forecasted activity (provisional allocation) to meet the previous year's emissions obligations.

Changes over time

In the 2008 design, each NZU had to be backed by a Kyoto unit held by the Crown no later than the date for demonstrating compliance under the first Kyoto commitment period.[71] This requirement was removed (with retrospective application) in the 2012 amendments.

In the 2008 design, all emissions and removals were assessed at one unit per tonne. In 2009, the unit obligation for non-forestry sectors was reduced to one unit per 2 tonnes of emissions. This was extended indefinitely in 2012. Following the 2016 amendments, a one-for-one unit obligation was phased in for non-forestry sectors as follows: one unit per 1.5 tonnes (67%) in 2017, one unit per 1.2 tonnes (83%) in 2018, and one unit per tonne (100%) from 2019 onward.

Although auctioning was enabled in legislation from 2012, it was not implemented until 2021. Past sources of unit supply which are no longer operational included:

- Fixed tranches of free allocation in the forestry and fishing sectors (see section 4.7)
- The option to purchase NZUs at fixed price with no quantity limit for immediate surrender (see section 4.5)
- Eligible offshore Kyoto units with no quantity limit (see section 4.8)
- Units issued under Negotiated Greenhouse Agreements (NGAs),[72] the last of which ended in 2022
- Units issued for removals under the PFSI,[73] which ended in 2023.

If the agriculture sector had assumed unit obligations under the NZ ETS, free allocation would have been issued on an output basis, providing a further source of supply. In May 2021, the Government initiated a Climate Emergency Response Fund (CERF) supported by funding from NZ ETS auction revenue.[74] CERF funding was directed toward decarbonisation initiatives in transport, energy, and industry; agriculture and land-sector programmes; climate adaptation; and building system capability. The CERF was closed by the current Government in May 2024.[75] Initiatives with CERF funding were moved back into the general Budget process or discontinued. From 2021 through 2025, NZ ETS auction revenue totalled $3.8 billion.

Rationale and practical outcomes

From 2008 to mid-2015, the NZ ETS intentionally used the international Kyoto market, rather than government auctioning, to help supply units and set the domestic price (see section 4.8). In essence, the NZ ETS was nested within the international cap set by the Kyoto Protocol. This approach clearly distinguished the NZ ETS from the previously proposed carbon tax, which would have returned revenue to the Government. It also avoided restricting unit supply in the domestic market, allowing domestic emissions to continue increasing.

Reducing the unit obligation for non-forestry sectors from 2009 was intended to moderate the system's cost during a time of recession. The Government's 2016 decision to phase in a one-for-one unit obligation for non-forestry sectors over 2017–2019 was intended to manage fiscal risks, transfer more mitigation responsibility to emitters, moderate the cost adjustment for households and firms, and maintain market stability.

Since de-linking the NZ ETS from the Kyoto market in mid-2015, only NZUs have been eligible for surrender. During the gap between the end of linking and the start of auctioning, participants relied on stockpiled NZUs alongside ongoing supply from industrial free allocation and removals to satisfy demand.

The introduction of auctioning in 2021 marked an important development in terms of both introducing a mechanism for limiting domestic emissions in NZ ETS sectors and generating NZ ETS revenue. This equipped the NZ ETS to better support the country in achieving its international and domestic targets with a chosen balance between domestic and offshore mitigation effort and investment.

The large potential for post-1989 forestry to supply removals to the NZ ETS market has meant that NZ ETS sectors have faced a cost but not a hard limit on gross domestic emissions to date.

Banking has given participants flexibility to manage their obligations strategically over time. This feature is particularly valuable in a system where annual emissions can be affected significantly by variable levels of renewable generation, operational changes by large producers, and forest harvesting/replanting. However, motivated by arbitrage opportunities associated with first offshore units and then the fixed price option, participants have accumulated a substantial stockpile of NZUs which has exceeded annual surrender volumes by a factor ranging from 3.0 to 6.3 over 2016/17 to 2024/25.[76]

Despite the large participant stockpile, the cost containment reserve has been triggered three times in quarterly auctions since auctioning began, releasing additional unit volumes to market in September 2021, March 2022, and June 2022. This was the product of market expectations of long-term mitigation ambition, rapid rises in emissions prices in the secondary market, and the relative levels of the cost containment reserve trigger prices.

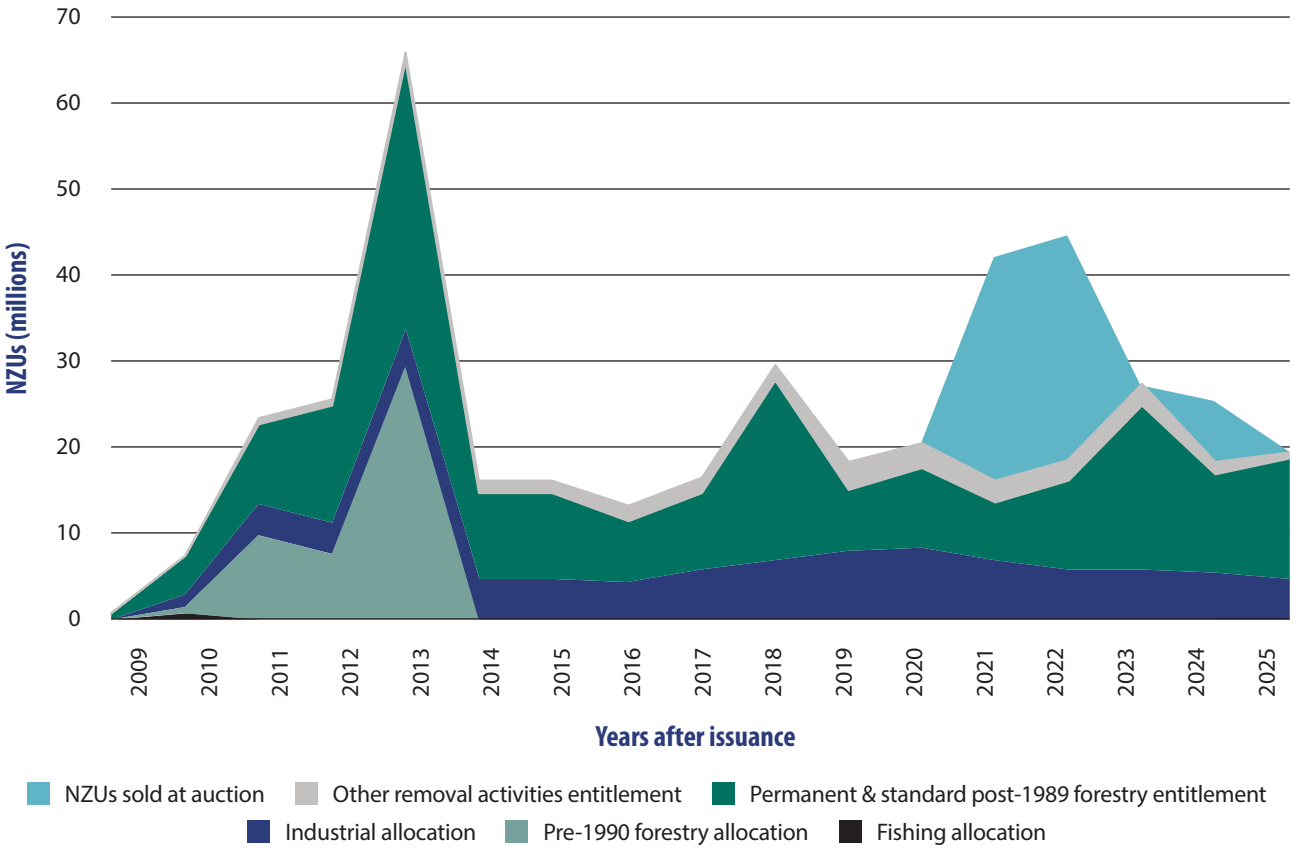
The legislated process mandating government consideration of Climate Change Commission advice on NZ unit supply and price control settings took effect starting with advice in 2022, covering the period 2023–2027.[77] In late 2022, the Government initially rejected the Climate Change Commission's advice to raise the auction reserve price and introduce a two-tier structure for the cost containment reserve with raised

trigger prices.[78] In 2023, this decision underwent judicial review initiated by Lawyers for Climate Action NZ Inc. The Minister of Climate Change admitted the error.[79] The High Court ruled the Government's NZ ETS unit supply and price control settings had not met legislated requirements for determining accordance of NZ ETS unit settings and price controls with emissions budgets, NDCs, and the 2050 target. The High Court directed the Minister to reconsider the settings.[80] The Government issued revised settings for 2023–2027 alongside its decision on settings for 2024–2028.[81]

Over time, the large stockpile of participant-held NZUs combined with the influx of further forestry NZUs and mitigation policy changes have dampened demand for auctioned NZUs. Zero NZUs have been sold at 11 out of 21 quarterly auctions over March 2021–March 2026. At some auctions, this was due to bids not satisfying the minimum price settings (see section 4.5). Zero bids have been made at seven out of eight auctions from June 2024 through March 2026.

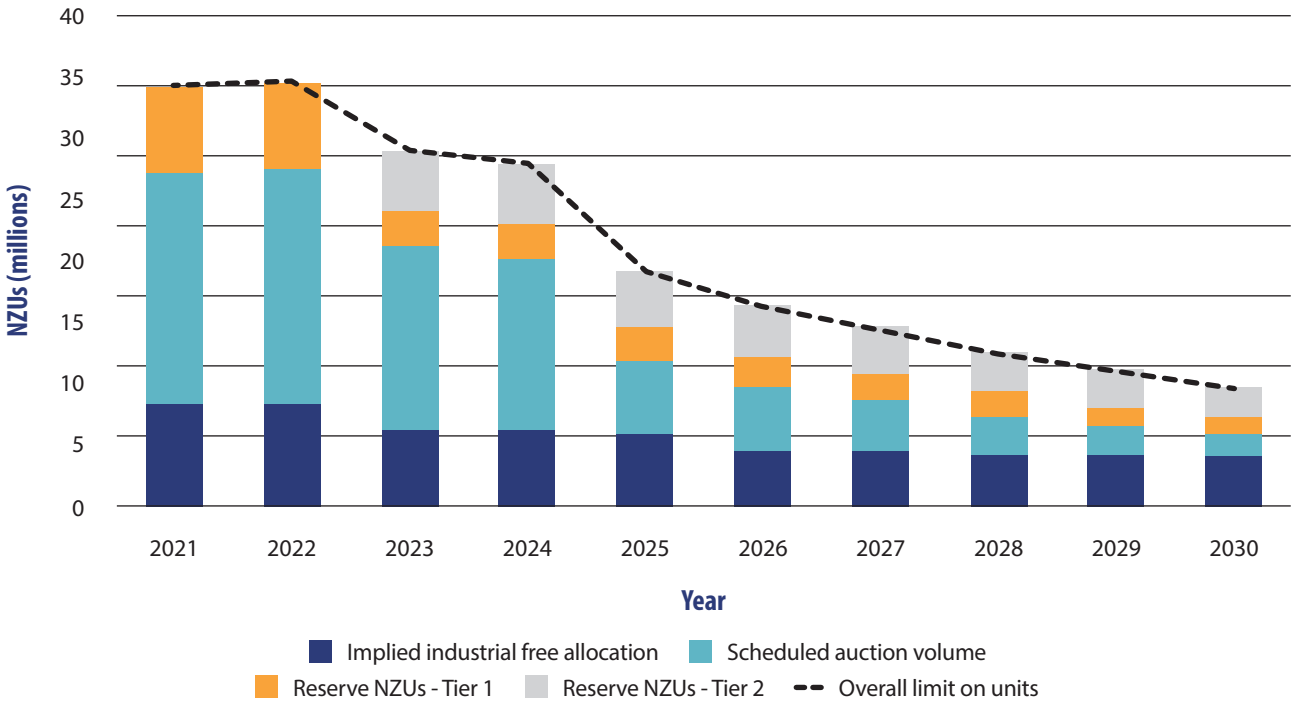
Figure 9 shows NZUs issued for free allocation, removal entitlements, and auctioning from 2009 to December 2025. Figure 10 shows regulated unit settings from 2021 to 2030 (as of January 2026), and Figure 11 compares regulated NZ ETS auction settings from 2021 to 2030 with actual auction outcomes from 2021 to 2025. Figure 12 shows trends in the participant-held stockpile of NZUs relative to surrender volumes.

Figure 9: NZUs issued for free allocation, removal entitlements, and auctioning from 2009 to 2025 (millions)



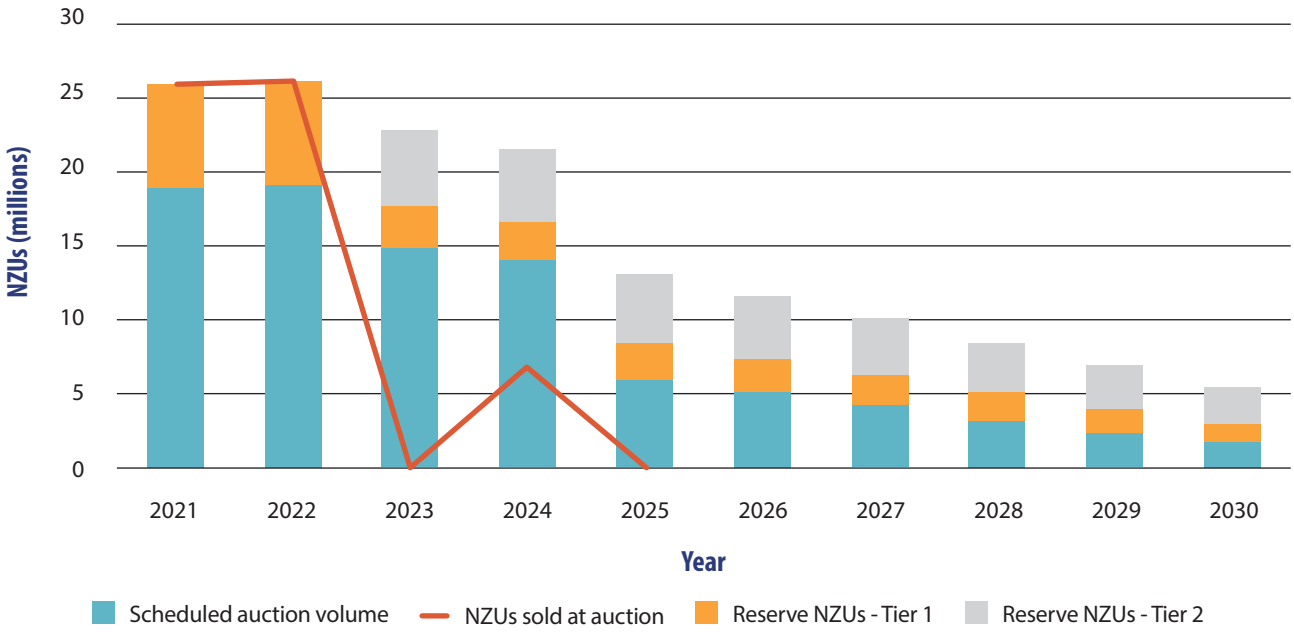
Note: The 2010 compliance year covered July through December for non-forestry sectors. Over 2010–2016, industrial free allocation was provided at 50% of the full entitlement while the one-for-two unit obligation was in place. This increased to 67% in 2017, 83% in 2018, and 100% in 2019. The data in this figure show gross NZU allocations and entitlements excluding NZU repayments. Source: Data on allocation and entitlements from Environmental Protection Authority (2026c). Data on NZUs sold at auction from NZX-EEX (n.d.–a).

Figure 10: Regulated NZ ETS unit settings from 2021 to 2030 as of January 2026 (millions)



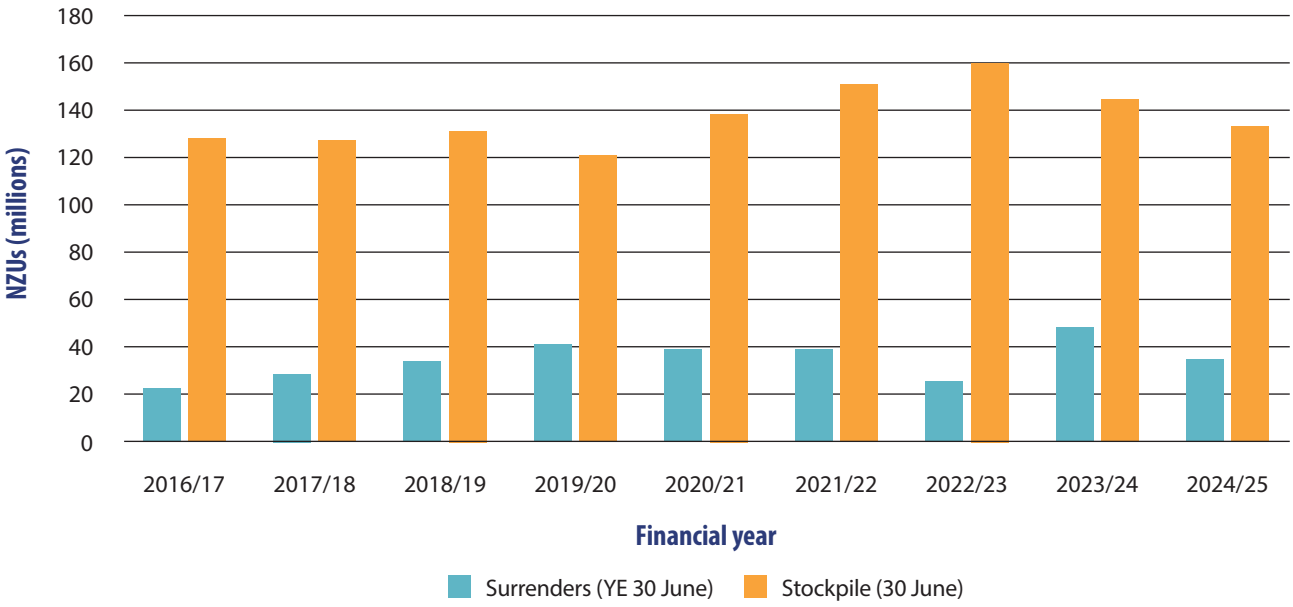
Note: The regulated auction settings for years 2027 to 2030 are subject to change. The volumes of industrial free allocation are implied by other regulated settings. Source: Data on auction volumes from Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020.

Figure 11: Regulated NZ ETS auction volumes from 2021 to 2030 and auction outcomes from 2021 to 2025 (millions)



Note: The regulated auction settings for years 2027 to 2030 are subject to change. Source: Data on auction volumes from Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020. Data on NZUs sold at auction from NZX-EEX (n.d.–a).

Figure 12: Trends in the participant-held stockpile of NZUs relative to surrender volumes from 2016/17 to 2024/25 (millions)



Note: Emissions reports and surrenders covering calendar-year emissions are due by May in the following year. Reporting by the Environmental Protection Authority applies a financial year ending in June. From 2010–2016, non-forestry sectors surrendered one unit per 2 tonnes of emissions. This increased to one unit per 1.5 tonnes in 2017, one unit per 1.2 tonnes in 2018, and one unit per tonne in 2019. Source: Environmental Protection Authority (2026b, 2026c).

4.5. Price controls

Current features (2026)

The NZ ETS operates with three price control measures operationalised through the auction mechanism.

1. An auction reserve price (a form of price floor) sets a minimum price at which the Government will sell units at auction.
2. A confidential reserve price, whose methodology is set by the Minister, applies at auction to prevent unit sales by the Government significantly below unit prices in the secondary market.[82]
3. A two-tier cost containment reserve (a form of price ceiling) holds a fixed volume of NZUs that are released if the cost containment reserve trigger prices are reached in the auction.

These measures do not constrain emissions prices in the secondary market or prevent the auction price from exceeding the cost containment reserve trigger price.

Changes over time

In the 2008 design, the NZ ETS did not include any form of price ceiling or price floor. The 2009 amendments introduced a fixed price option (a form of price ceiling) set at NZ$25 per tonne. This was operationalised by giving participants the option to purchase an unlimited number of NZUs at the fixed price for immediate surrender. This was extended indefinitely in 2012. The 2020 amendments provided for the fixed price option to increase to NZ$35 per tonne for surrenders covering 2020 emissions and then be discontinued for

emissions from 2021 onwards. The transition out of the fixed price option overlapped with the introduction of the new price management mechanism described above in 2021.

With effect from the auction in December 2023, the cost containment reserve shifted to a two-tier system and the trigger prices were raised significantly. This was to reduce both the likelihood of triggering the cost containment reserve and the volume of reserve units that would be released to the market when the first trigger price was reached. This was informed by advice from the Climate Change Commission about the potential range of emission prices consistent with achieving emissions budgets based on modelling.[83]

Rationale and practical outcomes

In the 2008 design, the system relied on participants' unlimited use of international Kyoto units and banking to support market liquidity and help guard against price volatility. The introduction of the NZ$25 fixed-price option in 2009 provided a further safeguard against high emissions prices. With the one-for-two unit obligation in place from 2010 to 2016, the system provided an effective emissions price ceiling of NZ$12.50 per tonne for non-forestry sectors.

While the system was linked to the international Kyoto market (see section 4.8), international emissions prices set domestic prices. As a result of global oversupply of Kyoto units – made worse by the global financial crisis and withdrawal of the United States and Canada from the Kyoto Protocol – the prices of international Kyoto units declined from mid-2011, and NZU prices followed suit. The NZU price hit its lowest reported value of $1.45 in February 2013.

When the prospect of future de-linking from the Kyoto market first arose in 2011 and then materialised in late 2012 (the result of the Government's decision to take its emissions reduction target for the 2013–2020 period outside of the Kyoto Protocol), NZUs began to command higher prices than international Kyoto units. Across the period from 2011 through 2015, many NZ ETS participants chose to stockpile NZUs issued for free allocation and removals and meet their obligations using lower-cost offshore Kyoto units. After de-linking in mid-2015, participants shifted to surrendering NZUs. As domestic emissions prices rose toward the level of the fixed price option, more participants opted to use it.

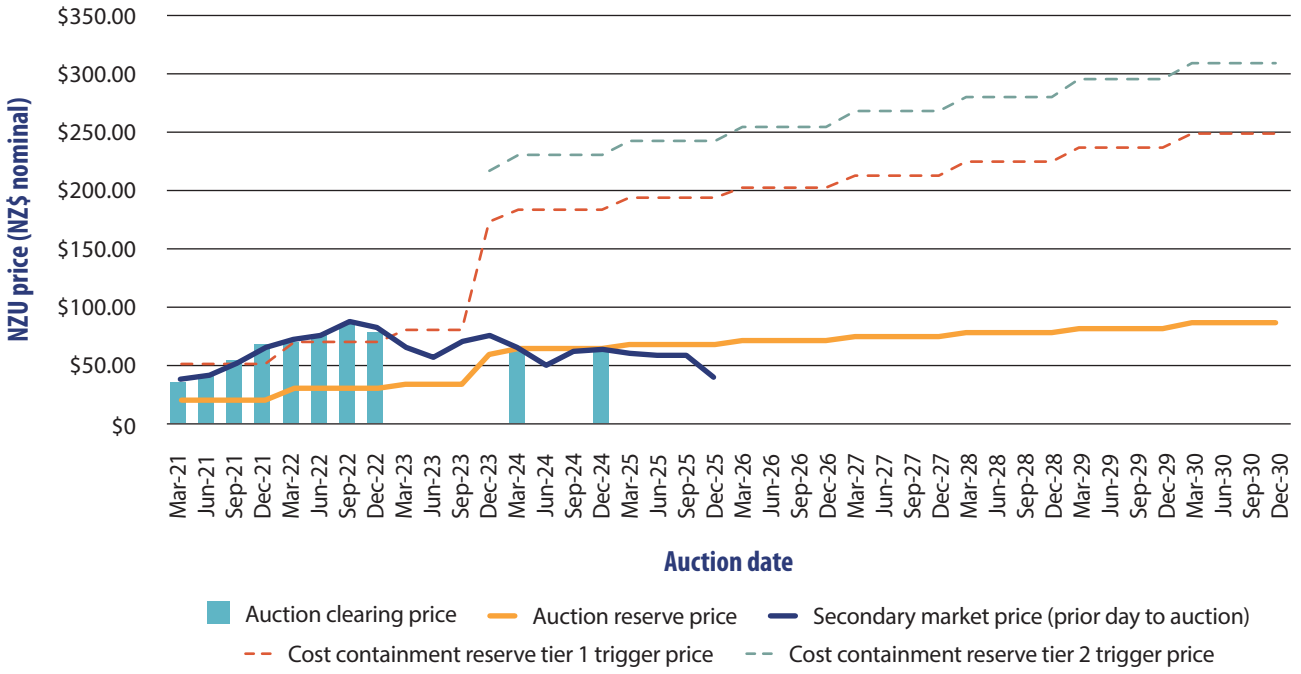
Following the 2020 amendments, which provided for the removal of the fixed price option and the introduction of auctioning from 2021, NZU prices rose rapidly. At the end of 2020, the NZU price was $37.55. In November 2022, it reached its highest recorded price for the 2008–2025 period of $88.50. Since then, NZU prices have shown considerable volatility. A major contributing factor has been the market's response to government policy proposals and decisions regarding NZ ETS unit supply and price control settings as well as broader climate change targets and policies.[84]

Figure 13 shows NZU prices on the secondary market from January 2010 to January 2026. Figure 14 shows regulated price control settings at auction from 2021 to 2030 and actual auction clearing prices from 2021 to 2025.

Figure 13: NZU prices in the secondary market from January 2010 to January 2026 (NZ$ nominal)

Note: Data from OM Financial and Jarden (used with permission).

Figure 14: Regulated price control settings at auction from 2021 to 2030 and actual auction clearing prices from 2021 to 2025 (NZ$ nominal)

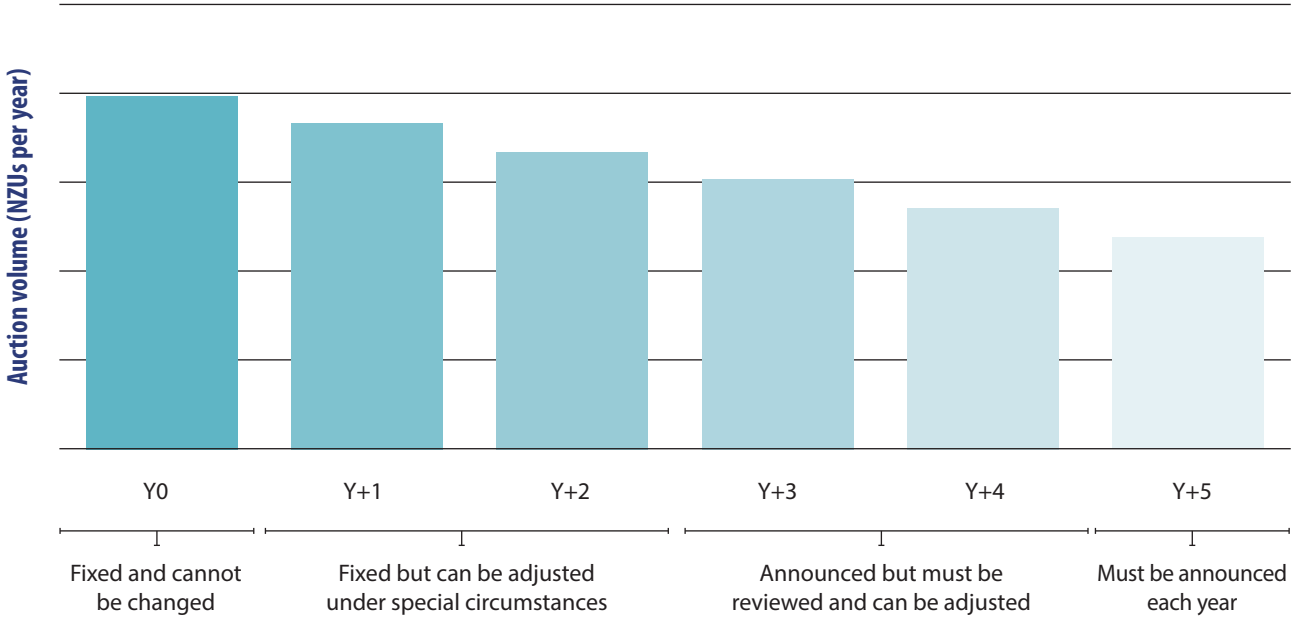


Source: Data on regulated price control settings from Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020. Data on auction clearing prices from NZX-EEX (n.d.–a).

4.6. Process for deciding NZ ETS unit supply and price control settings

The CCRA prescribes a process for decisions on NZ ETS unit supply and price control settings. Currently, these settings must be in place for five years in advance and they are extended by one year each year. As shown in Figure 15, decisions are fixed only for the first year of each five-year block (Y0) on a rolling basis. The settings for any of the subsequent four years can be adjusted (subject to constraints) at the same time decisions are made each year on the next extension year (Y+5). Changes in years Y+1 or Y+2 can be made only if (1) the price control settings have had effect through the release of reserve units or the sale of units at the auction reserve price, or (2) there has been a significant change in the matters the Minister of Climate Change must consider when making settings, a change in the relevant emissions budget, or a *force majeure* event.

Figure 15: Five-year rolling process for setting unit supply



Source: Adapted from Ministry for the Environment (2025a).

In November 2025, the Government announced its intention to change to a biennial instead of annual process for decisions on unit supply and price controls.[85] This will require legislative amendments.

When making decisions on unit supply and price control settings, the Minister of Climate Change must consider matters specified in section 30GC of the CCRA. These include:

- Projected trends for New Zealand's GHG emissions for the following five years
- The emissions volumes inside and outside the NZ ETS
- The proper functioning of the emissions trading scheme
- International climate change obligations and instruments or contracts with other jurisdictions to access emissions reductions in their carbon markets
- The availability and costs of mitigation options
- Recommendations from the Climate Change Commission on unit supply and price control settings
- Any other matters that the Minister considers relevant.

When making decisions on price control settings, the Minister of Climate Change must also consider the impact of emissions prices on households and the economy, the level and trajectory of international emissions prices (including price controls in linked markets), and inflation. When providing advice to the Minister on unit supply and price control settings, the Climate Change Commission must consider the same matters as the Minister, as well as considerations in section 5M of the CCRA that apply to all its advice.[86]

Both the Climate Change Commission and the Government apply a seven-step methodology for advice and decisions (respectively) on unit supply settings. This methodology is not itself prescribed in legislation but was developed to operationalise legislative requirements. A review of this methodology by the Ministry for the Environment and the Climate Change Commission in 2025 concluded the methodology was fit for purpose and identified opportunities for continual improvement in analysis and reporting to aid government decision-making on final settings.[87]

The table below presents the seven steps with a brief commentary on how they are applied.

Table 5: The seven-step methodology for NZ ETS unit supply settings

METHODOLOGICAL STEP	COMMENTARY
1. Align with emissions reduction targets	By legislation, unit supply settings must accord with relevant emissions budgets and the 2050 target; however, strict accordance with emissions budgets is not required.[88]
2. Allocate the emissions budgets to NZ ETS and non-NZ ETS sectors	This is informed by emissions projections and/or policies under emissions budgets, emissions reduction plans, and the 2050 target as appropriate.
3. Make technical adjustments	This is used to correct for discrepancies in emissions accounting between the NZ ETS and the national GHG inventory.
4. Account for industrial allocation volumes	Projected industrial allocation gets factored into the share of the overall limit available to be auctioned.
5. Set the reduction volume to address the NZU surplus	The surplus is the portion of the privately held NZU stockpile that poses a particular risk to meeting emissions budgets. This is discussed further below.
6. Set the approved overseas unit limit	The NZ ETS does not currently accept overseas units, so this limit is set at zero.
7. Calculate the base auction volumes	The base auction volume excludes the unit volume held in the cost containment reserve. It is calculated from the results of steps 1 to 6.

Many of the decisions leading to the base auction volume are driven by overarching decisions on emissions budgets, emissions reduction plans, and entitlements to industrial allocation. Decisions on the management of the surplus are policy determinations that seek to mitigate risks from the large privately held NZU stockpile to target accordance, proper functioning of the market, and economic and distributional effects.

In 2025, the surplus was estimated by the Climate Change Commission and the Government as the portion of the privately held NZU stockpile, excluding:

- Pre-1990 forest allocation units held long term
- Units held for post-1989 forest harvest liabilities
- Units held for hedging purposes by emitters
- Units held by emitters for emissions that have already occurred (holding volumes).

The estimation also accounted for post-1989 forestry units relating to the fourth MERP (2023–2025) that could be carried over into the second emissions budget period and contribute to the surplus.[89]

The rationale for calculating a surplus level within the stockpile is that the portion of the stockpile associated with those factors listed above can be considered relatively illiquid, whereas the remainder is more readily available to market. There is a broad range of uncertainty surrounding determination of those factors.

Since 2021, successive governments have chosen to reduce annual auction volumes to gradually draw down the historical surplus by 2030, thereby reducing the risk of not meeting future emissions budgets. The surplus is also affected by ongoing market dynamics, including the supply of new forestry NZUs and the volume of units sold (or unsold) at auction. The methodology for estimating the surplus is continuing to evolve with each round of decision-making.

Advice and decisions on the volume of the cost containment reserve and price control settings are made in conjunction with judgments on base auction volumes, taking prescribed considerations into account.

To help inform decisions on NZ ETS unit supply and price control settings as well as emissions reduction plans, the Government developed an NZ ETS market model in 2022/23. This is used to assist with understanding the impacts of settings on target accordance, testing sensitivities around key assumptions, and understanding interactions between the NZ ETS and other policies. The model is publicly available upon request.[90]

As the operational context of the NZ ETS continues to evolve, new challenges will emerge for advice and decision-making on NZ ETS unit supply and price control settings. Examples include (but are not limited to):

- Accounting for the new 2050 target for biogenic methane and its implications for the NZ ETS under future emissions budgets and emissions reduction plans
- Managing uncertainty about the future supply of – and demand for – the forestry and non-forestry removals inside and outside the NZ ETS which are needed to achieve emissions budgets and the 2050 target
- Supporting the proper functioning of the market as auctioning and industrial free allocation are phased out
- Managing the implications for the NZ ETS of any Government banking or borrowing of mitigation across emissions budget periods.

4.7. Free allocation

Current features (2026)

Output-based free allocation is given annually to eligible emissions-intensive and trade-exposed industrial producers to mitigate the risk of emissions leakage overseas (discussed further below). Two emissions intensity thresholds determine eligibility: moderately intensive sectors have an emissions intensity of 800–1,599 t CO_2e/NZ$1 million revenue and highly intensive sectors have an emissions intensity of at least 1,600 t CO_2e/NZ$1 million revenue. An activity qualifies as trade exposed unless there is no international trade of the output of the activity across oceans or it is not economically viable to import or export the output of the activity. Electricity generation is deemed explicitly not trade exposed. Producers can be eligible to receive free allocation even if they are not obligated to surrender units in the NZ ETS.

The scope of industrial free allocation is designed to cover emissions-related costs associated with a recipient's direct emissions from stationary energy (e.g. the use of fossil fuels and geothermal fluids) and industrial processes, as well as indirect emissions from the electricity they purchase. The amount of free allocation is calculated as the product of annual output, an allocative baseline for that output, and a level of assistance.

The allocative baseline for free allocation reflects industry-average emissions per unit of output and is set in regulation. The amount of free allocation can be awarded provisionally based on the previous year's production and adjusted for actual production, or awarded in arrears. Allocative baselines are calculated for each industrial activity based on the historical average across the whole industry over a specified period

(currently the financial years 2016/17, 2017/18, 2018/19, 2019/20, and 2020/21).[91] An electricity allocation factor (EAF) is applied as part of setting allocative baselines. This is calculated as a three-year rolling average and updated each year.[92]

Under legislation as of March 2026, the Minister of Climate Change must review allocative baselines at least every 10 years after the previous review, and there is the option to conduct a review after five years. To help prevent over-allocation, allocative baselines must be updated after a review if the allocation covers more than 90% of the costs for highly emissions-intensive activities and 60% for moderately emissions-intensive activities. If, following a discretionary review, a firm's eligibility changes from the high to moderate category, the change takes effect after two years. Note these requirements for allocative baseline reviews are expected to change in forthcoming amendments, as discussed below.

For calendar year 2026, the level of assistance is 84% for highly emissions-intensive activities and 54% for moderately emissions-intensive activities. The level of assistance is reduced by one percentage point per year for 2021–2030, two percentage points per year for 2031–2040, and three percentage points per year for 2041–2050.

As of March 2026, any decision to increase the phase-out rate must apply to an emissions budget period and be made prior to the start of that emissions budget period, unless there has been a change to an emissions budget or a significant change in key considerations. Any decision to reduce the phase-out rate must be made prior to the start of the year in which the change applies. In both cases, advice in support of the change must be received from the Climate Change Commission. Note these requirements for phase-out rate reviews are expected to change in forthcoming amendments, as discussed below.

As of 1 July 2023, for a new activity to qualify for industrial allocation, it must meet the original eligibility criteria. In addition, the Minister must be satisfied that granting such eligibility would likely contribute to achieving the country's emissions budgets, targets, and NDCs, as well as lower the cost to taxpayers relative to the current allocation.[93]

In November 2025, the Government announced in-principle decisions to remove statutory reviews of allocative baselines (including the over-allocation test) and eligibility decisions. The rationale was that the combination of these measures disincentivises decarbonisation investment by recipients because that would reduce their entitlements to free allocation and therefore the return on their investment. It also plans to allow more flexibility in the timing of phase-out reviews in relation to the start of emissions budget periods, and to add a firm's investments in reducing emissions intensity or gross emissions to the list of factors considered by the Minister when reviewing phase-out rates. These changes will require legislative amendments which were under development as of this writing.[94]

Changes over time

The 2008 legislation provided for two tranches of free allocation to owners of pre-1990 forests (one covering the period from 2008 to 2012 and the other from 2013 to 2021) and absolute quantities of annual free allocation to the industrial and agricultural sectors that would take effect once unit obligations applied. The distribution of free allocation for pre-1990 forests varied according to features of forest ownership defined in legislation. The amount of industrial and agricultural free allocation was fixed at 90% of 2005 levels with no expansion for new entrants. The allocation methodology for the fixed amount was not specified in legislation. Industrial and agricultural free allocation was to be phased out over 2019 to 2029, reaching zero in 2030.

In 2009, a fixed tranche of free allocation was added for the fishing sector. In addition, industrial and agricultural free allocation were changed to an output (i.e. intensity) basis without overall quantity limits and with a reduced phase-out rate. The legislated eligibility thresholds were based on those applied in the Australian ETS under development at the time and assumed an electricity emissions factor of 1 t CO_2e/MWh (based on Australia's coal-fired generation).[95] Allocative baselines were calculated for each industrial activity based on data from 2006/07 to 2008/09 for most firms. The initial levels of assistance for industrial free allocation, which applied from mid-2010 through 2020, were 90% for highly emissions-intensive producers and 60% for moderately emissions-intensive producers. While a partial unit obligation applied through 2018, free allocation was credited on the same partial basis.

The 2012 amendments deferred the phase-out of industrial free allocation indefinitely. The 2020 amendments initiated a default phase-out rate for the level of assistance as discussed above. They also increased the intended initial level of free allocation to obligated agricultural entities (either processors or farmers) from 90% to 95% and deferred the phase-out of agricultural free allocation indefinitely. The 2023 amendments were targeted at reducing over-allocation to industrial recipients by updating allocative baselines and the EAF and adding further eligibility requirements for new market entrants.

The EAF has a significant impact on the Government's unit liability under the NZ ETS. It is set at a level reflecting the emissions intensity of electricity generation at the margin,[96] which drives the impact of emissions prices on electricity prices. As a result, more NZUs are issued in respect of electricity consumption by free allocation recipients than the number of NZUs received by the Government for the corresponding amount of electricity production. The EAF applied to most participants[97] was 0.52 tCO_2e/MWh over 2010–2012 and 0.537 tCO_2e/MWh over 2013–2023. Applying a fixed EAF for extended periods provided certainty but meant that allocative baselines did not keep pace with changes in electricity emissions.[98] Pursuant to the 2023 amendments, a new methodology for calculating the EAF using a rolling average with annual updates took effect in 2024.

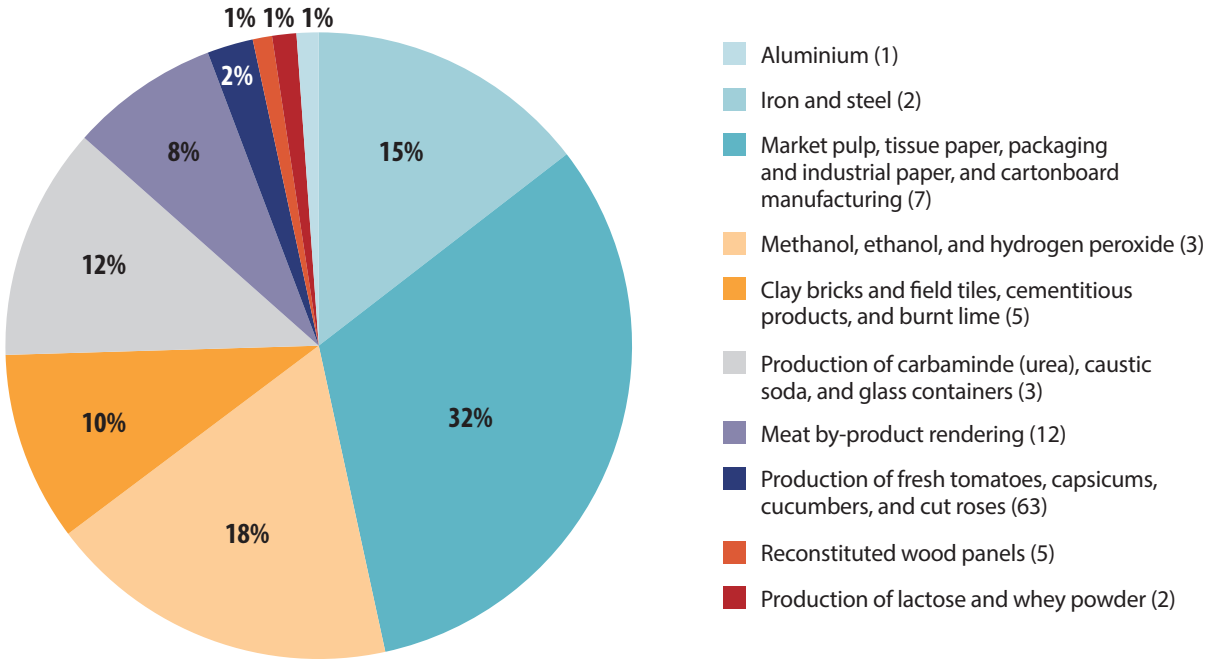
Rationale and practical outcomes

Free allocation is a feature commonly used in an ETS to help producers and consumers adjust more gradually to the cost of emissions constraints while they continue to face incentives to reduce emissions.[99] In the NZ ETS, providing fixed amounts of free allocation to the forestry and fishing sectors was intended to help compensate for loss in asset value due to the introduction of emissions pricing. Ongoing output-based free allocation to emissions-intensive and trade-exposed industrial producers was intended to prevent leakage of production and emissions offshore to jurisdictions with less stringent climate policies while still maintaining an incentive to reduce their emissions intensity. It was also intended to avoid economic regrets from losing domestic production that would be competitive if more jurisdictions had comparable emissions pricing.[100] Non-trade-exposed producers (such as electricity generators and transport fuel suppliers), which can pass on emission costs to their customers, are not eligible for free allocation.

The 2020 amendments to accelerate the phase-out rate of industrial allocation reflected consideration of the country's target ambition, the declining risk of emissions leakage over time, equity, and the need to balance certainty with flexibility.[101] The 2023 amendments were in response to evidence of over-allocation.[102]

In FY 2024/25, 4.7 million NZUs were allocated for free, equivalent to 14% of the surrender volume of 34.4 million units. The breakdown of final allocation decisions across 70 recipients in 2024 is provided in Figure 16. In that year, the 10 largest recipients received 90% of the total free allocation.[103]

Figure 16: Final industrial free allocation decisions in 2024



Note: The number of firms receiving industrial allocation in each category is listed in parentheses. Source: Environmental Protection Authority (2025b).

4.8. Linking and offsets

Current features (2026)

Linking refers to recognising units from another ETS or external mechanism, for compliance by participants. Although linking was a prominent feature in the past, the NZ ETS currently operates as a domestic-only system. The legislation enables recognition of overseas units by regulation, which leaves open the possibility of future linking. If the system did reopen to offshore units in the future, they would be subject to a sub-limit within the overall limit on unit supply.

Changes over time

In the 2008 design, the NZ ETS had both buy-and-sell linkages with the international market under the Kyoto Protocol, with buying primarily through the Clean Development Mechanism and Joint Implementation. Some restrictions applied to the types[104] but not the quantity of international Kyoto units that could be surrendered. NZUs from all sectors were eligible for conversion to New Zealand Assigned Amount Units (NZ AAUs) for sale overseas. When the fixed price option was introduced in 2009, unit exports were permitted only for forestry NZUs after exchange for NZ AAUs. The NZ ETS de-linked from the Kyoto market in mid-2015.

The Government's 2002 climate change policy package, based around a proposed carbon tax, had included three domestic unit-based mechanisms: PFSI, NGAs, and Projects to Reduce Emissions (PRE). These mechanisms generated units which were tradable in the NZ ETS or offshore. The Government honoured NGA and PRE commitments after the policies were discontinued. As discussed above, the PFSI was replaced by the permanent post-1989 forest activity in the NZ ETS and the last NGA was concluded in 2022.

Rationale and practical outcomes

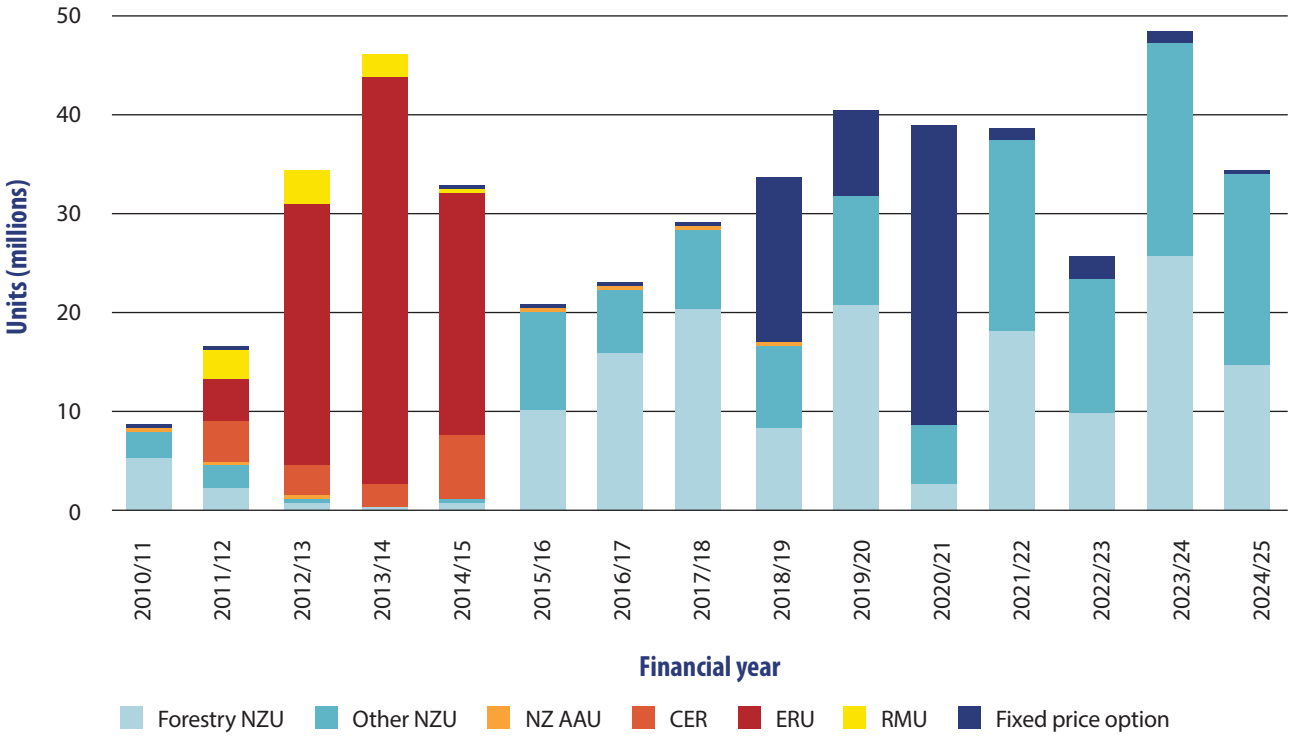
Given the country's relatively small market, higher-cost domestic mitigation opportunities, and interest in international cooperation, the NZ ETS was fundamentally conceived as an internationally linked ETS. It was designed to operate nested within the international Kyoto cap and use the Kyoto market to supply units and set the domestic price. This was to let NZ ETS participants access least-cost mitigation options globally in a manner consistent with the Kyoto Protocol — and to make efficient domestic production and investment decisions influenced by the international price of emissions.

As discussed in section 4.5, operating with an unconstrained international linkage left the NZ ETS market fully exposed to international emissions prices through mid-2015. As those prices declined from 2011, so did emissions prices in the NZ ETS. This price decline removed the incentive to reduce domestic emissions and led to the purchase and surrender of offshore Kyoto units accompanied by stockpiling of NZUs. The New Zealand Government ended the first Kyoto commitment period (2008–2012) with a large surplus of Kyoto units. The Government carried those units into the 2013–2020 period and used them to help meet its 2020 target under the United Nations Framework Convention on Climate Change (UNFCCC).[105]

Over time, officials have explored bilateral linking options with other ETS. No ETS linking agreements have been reached to date. Internationally, New Zealand continues to support the development of global carbon market mechanisms and advancement of longer-term emissions trading opportunities through multilateral, regional, and bilateral initiatives.

Figure 17 shows trends in unit surrenders. The impact of linking is evident from 2010/11 to 2014/15.

Figure 17: Unit surrenders in the NZ ETS from 2010/11 to 2024/25 (millions)



Note: The 2010 compliance year covered July through December. See the Annex for an emissions unit typology. From 2010–2016, non-forestry sectors surrendered one unit per 2 tonnes of emissions. This increased to one unit per 1.5 tonnes in 2017, one unit per 1.2 tonnes in 2018, and one unit per tonne in 2019. Source: Data from Environmental Protection Authority (2026c).

4.9. Monitoring, reporting, verification, and compliance

Current features (2026)

Annual compliance periods for reporting emissions and surrendering units apply to most participants. As discussed in section 4.3, post-1989 forest owners who opt into the NZ ETS have a mandatory emissions reporting period of (typically) five years.[106] However, they can voluntarily report annually to receive units and must report when making changes to their registration in the system.

To calculate emissions, default emissions factors are provided in regulations for all sectors but are not used by all sectors. Non-forestry participants have the option to apply for unique emissions factors in some cases; this enables their particular characteristics to be accounted for.[107] Independent third-party verification is required at the time of application for unique emissions factors. As discussed in section 4.3, when measuring changes in forest carbon stocks in post-1989 forests, participants with less than 100 hectares must use government look-up tables, whereas those with areas of 100 hectares or more must use an FMA involving sample plots. For measuring deforestation emissions, pre-1990 forest participants must use government look-up tables.

Participants follow a self-assessment model for emissions monitoring, reporting, and verification (MRV). No independent third-party verification is required of emissions returns, but the Government has the power to conduct audits. Each year, the Environmental Protection Authority selects a sample of NZ ETS participants and free allocation recipients for reviews of compliance.

For infringements from 1 January 2021, the following penalties apply:[108]

- Participants who fail to surrender or repay units by the due date must supply the units and pay a financial penalty calculated as the dollar value of the emissions price on the due date, multiplied by three. Exceptions apply for some post-1989 forestry activities carried out before 1 January 2023 involving liabilities of less than 25,000 units.
- Participants who fail to submit an emissions return or allocation adjustment by the due date (or who submit incorrect information in an emissions return or allocation application/adjustment) must pay a financial penalty calculated as the amount of emissions/removals/units involved, multiplied by the dollar value of the emissions price on the due date, multiplied by a culpability factor. The culpability factor varies according to whether the participant did not take reasonable care, was grossly careless, or knowingly failed. No penalty applies if reasonable care was taken.[109]

In the case of low-level infringements, financial sanctions apply but not convictions. Severe infringements can result in prosecution.[110]

The 2023 amendments adjusted the penalty regime for forestry participants. All forestry participants making a late payment face an upfront penalty (a fixed percentage of the value of outstanding units) and a flat monthly penalty after that (with no compound interest). Total late-payment penalties are capped. These penalties are reduced for small-volume forestry participants.

Penalties not paid accrue interest. The Environmental Protection Authority publishes an annual list of those who incurred penalties. It reports names and penalty amounts in all cases of surrender failures, and in cases of reporting failures involving gross carelessness or knowing failure.[111]

Changes over time

A different penalty regime applied under the CCRA before the 2020 amendments. Failure to surrender emissions units resulted in a requirement to supply those units and pay a financial penalty of NZ$30 per unit. Interest accrued until the penalty was paid. Failure to comply with data collection, record-keeping, reporting, registration, or notification requirements carried a fine (subject to court proceedings). Knowingly providing false information carried a larger fine and/or a prison term.

Rationale and practical outcomes

The calendar-year basis for emissions reporting aligns with the Government's processes for national GHG inventory reporting and target assessment under its international and domestic obligations. It does not align with the Government's (or participants') financial year for budget decisions or organisational accounting.

Providing default emission factors and forestry look-up tables is intended to reduce administrative complexity and costs and support consistency of emissions reporting. Enabling unique emission factors accommodates those who deviate significantly from the average and can help with improving the precision of the national GHG inventory. The FMA is intended to improve the precision of emissions reporting for those with large areas of post-1989 forest.

The self-assessment model for MRV is modelled on the country's tax system. The combined possibility of an audit and substantial penalties creates a deterrent for non-compliance. Applying a unit make-good requirement (plus a financial penalty for failing to surrender units) is intended to safeguard the system's environmental integrity.

The 2015/16 review of the NZ ETS concluded the compliance regime "… was not fit for purpose, was not rigorous enough to sufficiently deter non-compliant behaviour, did not provide certainty for participants and created a significant administrative burden." The 2020 amendments were intended to:

- Raise the financial penalties for surrender failures (in the context of rising market prices and fiscal risks to the Government from surrender failures)
- Align more closely with ETS compliance regimes in other jurisdictions to help future linking
- Give a more nuanced and efficient approach to infringements for low-level offending (using a strict liability approach instead of involving the court system)
- Make allowances for post-1989 forestry participants during a time of transition to new accounting rules.[112]

4.10. Legislative and institutional arrangements

Current features (2026)

The enabling legislation for the NZ ETS is the CCRA, which provides the core framework for the country's response to climate change. More operational specifications are defined by regulations. Both legislation and regulations can be amended as required to improve operation of the system and adapt it to changes in policy.

The main ministerial responsibilities for the NZ ETS rest with the Minister of Climate Change or the Minister of Finance. Operational responsibilities for the NZ ETS are defined in legislation and delegated to specific government departments. The Environmental Protection Authority fulfils most general administrative,

compliance, and registry functions. The Ministry for Primary Industries manages operations for forestry (and previously agriculture), under delegation from the Environmental Protection Authority. The Ministry for the Environment administers the CCRA and leads development of the NZ ETS and overarching climate change policy, collaborating with other departments. The allocation of responsibilities across government departments is confirmed in a memorandum of understanding and detailed in an ETS operations manual.

Unit transactions under the NZ ETS are managed through the New Zealand Emissions Trading Register.[113] Information on unit holdings and transactions and other market information is reported publicly by the Environmental Protection Authority following legislative requirements.

Under the CCRA, the Climate Change Commission provides independent technical advice to the Government on reviews of the 2050 target, emissions budgets, the direction of policy for emissions reduction plans, NZ ETS operational matters, and other issues requested by the Minister of Climate Change under section 5K. In all cases, decisions rest with the Government. For NZ ETS operational matters, the Climate Change Commission's responsibilities to date have included advice on:

- Recommended limits and price control settings for units in the NZ ETS (annual from 2022)
- Progress towards achieving the primary sector climate change commitments and the readiness of livestock farmers to start complying with NZ ETS requirements (2022) (see section 4.2)
- What level of assistance, if any, should be given to participants in an alternative pricing system for farm-level emissions (2022) (see sections 4.2 and 4.7)
- Changes to the level of assistance for industrial free allocation (if requested by the Minister of Climate Change).

In November 2025, the Government made an in-principle decision to remove the requirement for the Climate Change Commission to provide advice on emissions reduction plans.[114] This will require legislative amendments.

The NZX Managed Auction Service does auctioning on behalf of the Government (see section 4.4) The provider was selected through a competitive tender. The CCRA provides for the Government to appoint an independent auction monitor by regulation. The Ministry for the Environment currently serves as the interim auction monitor.

In May 2025, the Government announced in-principle decisions on governance of the secondary market for trading NZUs.[115] Key decisions related to:

- Requiring trading platforms to report unit volume and price data to the Government; this information will not be published
- Requiring market participants to record additional NZU trading information in the New Zealand Emissions Trading Register, including information on forwards, futures, and spot trades
- Creating market conduct obligations under the CCRA to prohibit NZU price manipulation and misleading conduct in relation to NZU buying, selling, or holding
- Providing powers to the Ministry for the Environment and the Environmental Protection Authority to obtain information from market participants and to share relevant information across monitoring agencies (including the Financial Markets Authority, Ministry for Primary Industries, and Ministry of Business, Innovation and Employment)
- Delegating responsibility for enforcement of these provisions to the Financial Markets Authority.[116]

These changes will require legislative amendments. The Government is also working on non-regulatory measures to support market participants with additional market information.

Changes over time

In the 2008 design, operational responsibilities were delegated to the Ministry of Economic Development,[117] the Ministry of Agriculture and Forestry,[118] and the Ministry for the Environment. Delegations were adjusted in 2011 with the establishment of the Environmental Protection Authority.

While New Zealand had an emissions reduction target under the Kyoto Protocol (2008–2012), a common registry (then called the New Zealand Emissions Unit Register) was used to administer unit transactions relating to both New Zealand's international obligations under the Kyoto Protocol and the NZ ETS.

The Government conducted consultation on market governance options in 2021.[119] Measures which were considered but not adopted included treating NZUs as a financial product or establishing a government-funded, centrally cleared exchange for the NZU market.[120]

Rationale and practical outcomes

Administration of the NZ ETS is complex and relevant to the domain of multiple government departments. Ensuring clear delegation of responsibilities and coordination among departments was a priority throughout the design and implementation of the system. The separation of administrative and registry functions from policy-making functions has helped distribute effort and decision-making authority across departments and improve transparency.

Delegating NZ ETS operations for forestry (and previously agriculture) to the Ministry for Primary Industries has enabled subject specialists to meet the unique needs of NZ ETS participants in those sectors.

Enabling independent technical advice on NZ ETS settings by the Climate Change Commission is intended to improve the quality, consistency, and credibility of government decision-making over time.

The power to appoint an independent auction monitor was given in the 2020 amendments to safeguard the integrity of the auction mechanism and help ensure effective operation of the market. The auction monitor is tasked with monitoring the conduct of auction agents and participants, periodically assessing the auction system and recommending improvements, supporting reporting of key metrics, and providing further functions requested by the Minister. Requirements apply for the sharing and management of confidential information involving the auction monitor.

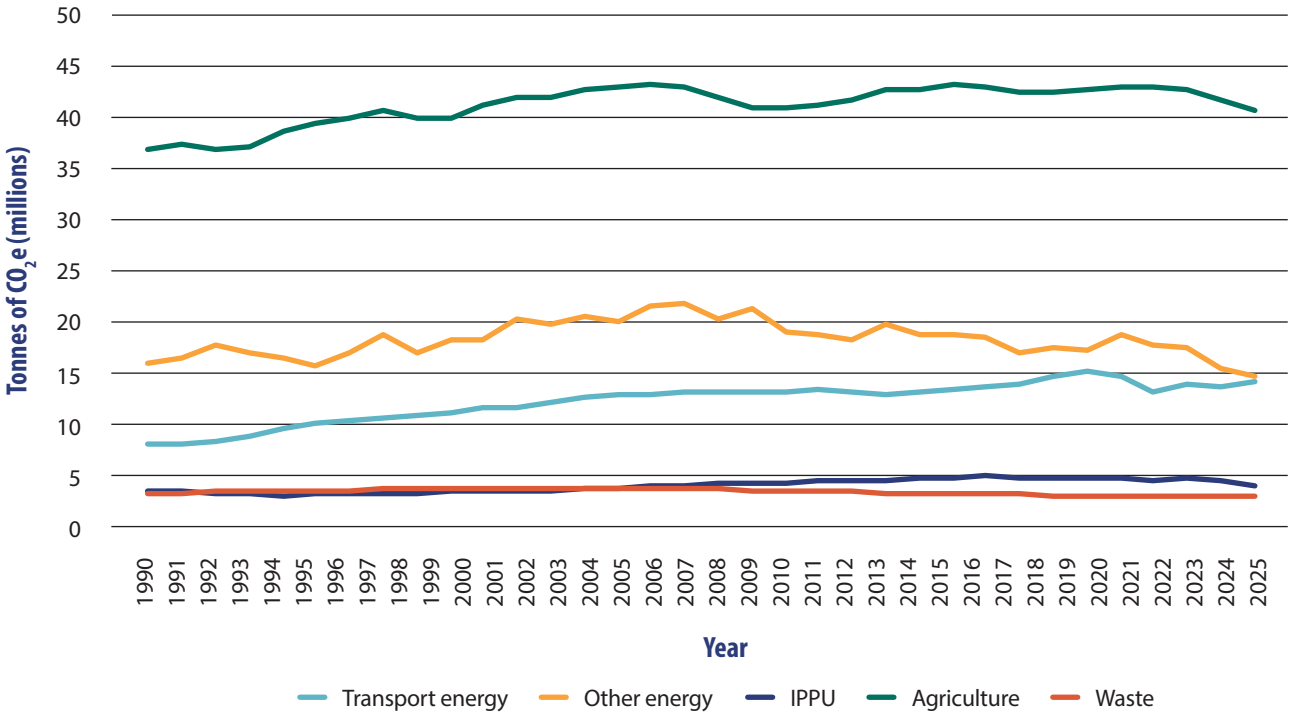
The changes to market governance are intended to help ensure the integrity of the secondary market in NZUs and maintain market confidence.

5. Emissions trends in NZ ETS sectors

Given the breadth of sectoral coverage of the NZ ETS and the complexity of economic activity, it can be technically difficult to distinguish the impact of emissions pricing from other regulations, policies, and exogenous drivers which interact to influence emission outcomes.

The Government's 2015/16 review of the NZ ETS concluded that while the NZ ETS had operated with integrity and supported the Government in meeting its international targets, it had not had a significant impact on domestic emissions or business decisions (outside of the forestry sector) since inception because of sustained low emissions prices and policy uncertainty.[121] As shown in Figure 18, gross emissions in non-forestry sectors remained relatively stable (with minor fluctuations) over the period from 2010 (when unit obligations began in selected non-forestry sectors) to 2019, before starting to decline. The country's economy grew during this period,[122] demonstrating a level of decoupling between gross emissions and GDP.

Figure 18: Gross national emissions from 1990 to 2023 (Mt CO_2e)



Source: Data from Ministry for the Environment (2025e).

Gross emissions declined 9% from 2019 to 2023.[123] As discussed in section 4.5, a rapid rise in emissions prices was observed from 2020 to 2022, but since then emissions prices have been volatile. They have declined overall through March 2026. Additional drivers of gross emissions outcomes since 2019 have included the economic effects of COVID-19, the introduction of sectoral measures under emissions reduction plans, changing technology, weather-driven fluctuations in renewable generation, the declining domestic supply of natural gas, and trends in international and domestic markets. Insights on emissions trends are provided in annual monitoring reports from the Climate Change Commission on progress towards meeting emissions budgets and the 2050 target.[124]

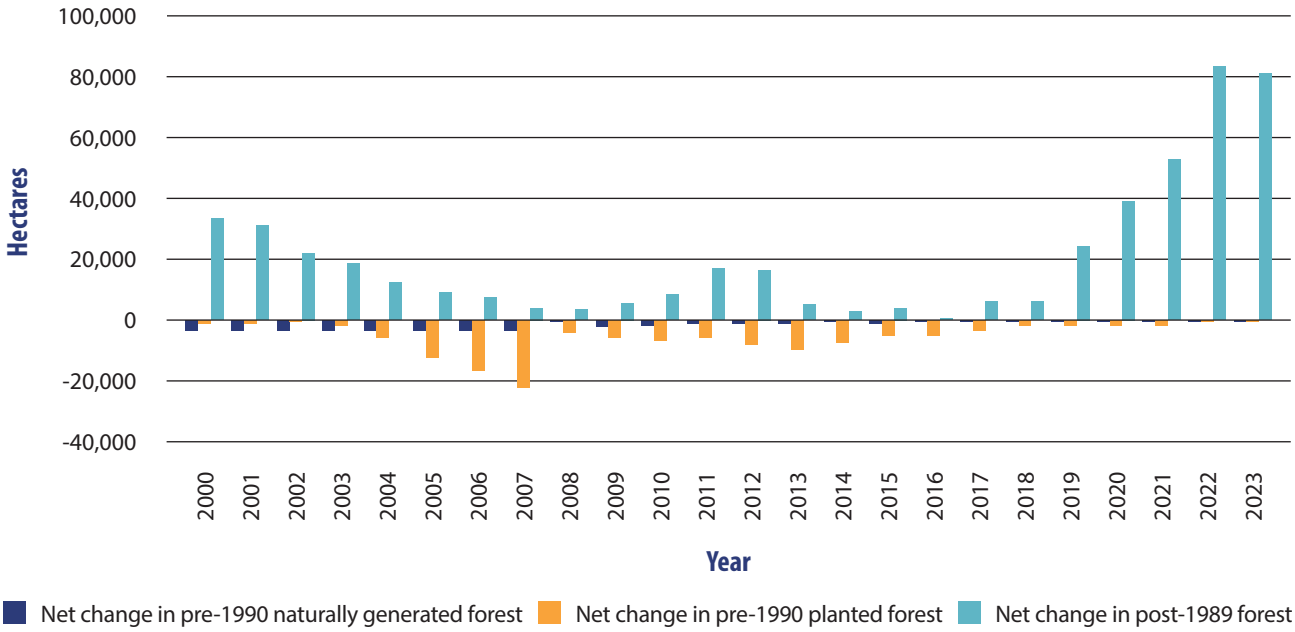
Analysis suggests landowner decisions on deforestation and afforestation have been strongly influenced by emissions prices but also by other factors, such as timber and agricultural commodity prices. The fall in emissions prices after 2011 increased incentives for deforestation and harvesting and decreased those for new afforestation. It also contributed to a period of deregistration (with some re-registration) of post-1989 forest from the NZ ETS, as landowners who had earned NZUs took advantage of the opportunity to clear future harvesting or deforestation liabilities using low-cost offshore Kyoto units and either exit the NZ ETS or re-register to continue earning NZUs. This arbitrage opportunity was closed through the 2014 amendment to the CCRA.[125]

The trend in forestry emissions and removals in the NZ ETS from 2009 to 2026 is challenging to evaluate due to many factors, most notably:

- A lag in the start of reporting and unit surrender obligations for the forestry sector
- The use of mandatory (typically) five-year reporting periods for post-1989 forests, with the option for interim reporting
- The reporting of emissions liabilities from deregistration of post-1989 forest, which may not reflect actual emissions
- A surrender cap for post-1989 forest, which means participants are not liable to surrender more units in relation to any carbon accounting area (or part thereof) than the unit balance (the net number of NZUs the forest land has received since being registered in the NZ ETS)
- The time lag between emissions price signals and changes in forestry activities
- The interaction between emissions prices and other market drivers of land-use decisions.

Figure 19 shows the net annual change in pre-1990 and post-1989 forest at the national level from 2000 to 2023. This includes forest both inside and outside the NZ ETS.

Figure 19: Net annual change in national pre-1990 and post-1989 forest area from 2000 to 2023 (hectares)



Source: Note that methodological differences preclude the direct comparison of data from the Land Use and Carbon Analysis System (LUCAS) and NZ ETS reporting systems. While both systems use the same definition of forest, they apply different mapping standards and scales. Data on total forest area by LUCAS forest type provided by the Ministry for the Environment, personal communication, 9 December 2025.[126]

6. Links for more information

More information about the NZ ETS is available on the following government websites:

- Climate Change Response Act 2002
- Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020
- Climate Change (Eligible Industrial Activities) Regulations 2010
- Climate Change (Forestry Sector) Regulations 2008
- Environmental Protection Authority
- Ministry for Primary Industries
- Ministry for the Environment

7. Annex: List of acronyms

AAU	Assigned Amount Unit: Unit derived from the emissions reduction target of an industrialised (Annex I) country under the Kyoto Protocol
CCRA	Climate Change Response Act 2002
CER	Certified Emissions Reduction: Unit generated by emissions reduction projects in developing (non-Annex I) countries under the Kyoto Protocol's Clean Development Mechanism (CDM)
CERF	Climate Emergency Response Fund
CH_4	Methane
CO_2	Carbon dioxide
CO_2e	Carbon dioxide equivalent
CCUS	Carbon capture, utilisation, and storage
EAF	Electricity allocation factor
ERU	Emissions Reduction Unit: Unit generated by emissions reduction projects in industrialised (Annex I) countries under the Kyoto Protocol's Joint Implementation (JI) mechanism
FMA	Field Measurement Approach: The system used for measuring changes in carbon stocks in post-1989 forest in the NZ ETS for areas of 100 hectares or more
GHG	Greenhouse gas
HFC	Hydrofluorocarbon
ICER	Long-term Certified Emissions Reduction: Unit issued for forestry projects in the CDM; it expired at the end of the crediting period of the project, which could be renewed over a period up to 60 years
LUC	Land Use Capability: A system for land mapping and classification that indicates general capability for sustained production
LUCAS	Land Use and Carbon Analysis System: The system established by the Ministry for the Environment in 2005 to meet UNFCCC and Kyoto Protocol reporting requirements for land use, land-use change, and forestry
MERP	Mandatory emissions return period: A multi-year period after which post-1989 forestry participants in the NZ ETS must file an emissions return
MRV	Monitoring, reporting, and verification
NDC	Nationally Determined Contribution: A country's self-defined plan to reduce emissions and adapt to climate change under the Paris Agreement
N_2O	Nitrous oxide

NGA	Negotiated Greenhouse Agreement
NZ ETS	New Zealand Emissions Trading Scheme
NZU	New Zealand Unit: Unit issued by the New Zealand Government for use in the NZ ETS which corresponds to 1 metric tonne of carbon dioxide equivalent
PFC	Perfluorocarbon
PFSI	Permanent Forest Sink Initiative
PRE	Projects to Reduce Emissions
RMU	Removal Unit: Unit issued for net forestry removals in an industrialised (Annex I) country with an emissions reduction target under the Kyoto Protocol
SF_6	Sulphur hexafluoride
tCER	Temporary Certified Emissions Reduction: Unit issued for forestry projects in the CDM; it expired at the end of the Kyoto commitment period after the one in which it was issued
UNFCCC	United Nations Framework Convention on Climate Change
ZCA	Climate Change Response (Zero Carbon) Amendment Act 2019

8. References

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Endnotes

1 Updates are available from World Bank Group (2025).

2 As stated in the CCRA, the term "carbon dioxide equivalent" refers to the amount of carbon dioxide (in tonnes) that would produce the same global warming as the amount of that gas, calculated in accordance with international climate change obligations.

3 For more information about emissions trading design and operation around the world, see Partnership for Market Readiness & International Carbon Action Partnership (2021).

4 This is available from https://www.legislation.govt.nz/act/public/2002/0040/latest/DLM158584.html.

5 This was equivalent to a 41% reduction in 2030 net emissions below 2005 gross emissions, with an emissions budget trajectory starting from 2020 target emissions.

6 Gross emissions exclude the forestry sector whereas net emissions include the forestry sector. The figure of 47% of gross emissions is the balance of domestic GHG emissions excluding biogenic emissions from agriculture (Ministry for the Environment, 2025e). This is a simplification, since the NZ ETS excludes wastewater emissions, synthetic GHGs in imported products (which are subject to a separate levy), and those who qualify for *de minimis* and other exemptions from unit obligations. Note the NZ ETS also excludes emissions from international shipping and aviation.

7 The biogenic emissions from agriculture include methane and nitrous oxide from animal production and nitrous oxide from synthetic fertiliser.

8 For a full list of amendments to the CCRA, see https://www.legislation.govt.nz/act/public/2002/0040/latest/versions.aspx.

9 Biogenic methane emissions are those from agriculture and waste.

10 See Ministry for the Environment (2022a).

11 See Ministry for the Environment (2024b).

12 See Ministry for the Environment (2024a).

13 See Ministry for the Environment (2026c).

14 See Ministry for the Environment & Ministry for Primary Industries (2022b).

15 See He Waka Eke Noa (2022).

16 See Climate Change Commission (2022a, 2022c).

17 See Interim Climate Change Committee (2019).

18 See Office of the Minister of Agriculture (2023).

19 See Cabinet Office (2023); Office of the Minister of Climate Change (2023a).

20 See Office of the Minister of Climate Change (2025d).

21 For a complete list of changes, see Office of the Minister of Climate Change (2025b, 2025c).

22 Synthetic GHGs are HFCs, PFCs, and SF_6, excluding PFCs from aluminium smelting.

23 Emissions from wastewater are excluded.

24 This covers substances that are embedded in products and would otherwise cause emissions. It applies provided a person is required to surrender units under the CCRA in respect of the emissions that would result if the substance was not captured and stored, and the result of the substance being captured and stored is a reduction from emissions reported in any emissions report provided under New Zealand's international climate change obligations. A prescribed threshold applies.

25 This applies provided a person is required to surrender units under the CCRA in respect of the emissions that would result if the carbon dioxide was not captured and stored, and the result of the carbon dioxide being captured and stored is a reduction from emissions reported in any emissions report provided under New Zealand's international climate change obligations. However, to date this provision has not been operationalised through regulations.

26 See Office of the Minister of Climate Change (2025a).

27 See Office of the Minister of Climate Change (2025b).

28 See Ministry for the Environment (2025b).

29 See Office of the Minister of Climate Change (2025c).

30 See Ministry for the Environment (2023a); Ministry for the Environment & Ministry for Primary Industries (2022b).

31 See Ministry for the Environment (2024d).

32 See Ministry for the Environment (2026c).

33 For fertilisers, the processor level corresponds to the point of manufacture or import. For animal production, it corresponds to the point of slaughter, dairy processing, or export.

34 This figure reflects the full carbon stock accounting methodology under the UNFCCC reporting framework, rather than the activity-based accounting methodology applied under New Zealand's international targets. See Ministry for the Environment (2025e).

35 See Leining, Allan, et al. (2017).

36 See Ministry for the Environment & Ministry for Primary Industries (2022a).

37 See Ministry for the Environment (2023a); Ministry for the Environment & Ministry for Primary Industries (2022b).

38 See the Climate Change Response (Emissions Trading Scheme Agricultural Obligations) Amendment Bill; Office of the Minister of Agriculture et al. (2024).

39 See Ministry for the Environment (2026c).

40 See Leining, Allan, et al. (2017).

41 See Environmental Protection Authority (2026a).

42 See Carver et al. (2022).

43 Under the CCRA, eligible forest land is an area of land of at least 1 hectare that has (or will have) tree crown cover from forest species of more than 30% in each hectare and with an average width of at least 30 metres. This includes land that is likely to revert to meet those requirements. Forest species must be capable of reaching at least 5 metres in height at maturity in their location. For more information, see Ministry for Primary Industries (n.d.–a).

44 Forest areas of less than 1 hectare are excluded from the NZ ETS for both deforestation of pre-1990 forest and post-1989 afforestation.

45 Pre-1990 forest is exempt from deforestation liabilities in the following cases: (1) the forest clearance was due to a natural event preventing re-establishment; (2) less than 2 hectares of pre-1990 forest is deforested in any five-year period commencing from 1 January 2008; (3) the area has been granted a tree weed exemption or less than 50 hectares exemption (with special provisions for some Māori land or land with 10 or more owners); or (4) the forest is pre-1990 indigenous forest. For more information, see Ministry for Primary Industries (n.d.–a).

46 The PFSI was introduced through a 2006 amendment to the CCRA. It enabled participants to earn tradable units for post-1989 afforestation managed under a forest covenant. In the past, the PFSI issued NZ AAUs for eligible removals. This was changed to NZUs after New Zealand took its international commitment for the period 2013 to 2020 under the UNFCCC instead of the Kyoto Protocol. Both types of units were eligible for trading in the NZ ETS.

47 For more information on forestry accounting in the NZ ETS, see Carver et al. (2022); Cortes-Acosta et al. (2020); and Ministry for Primary Industries (n.d.–a).

48 See Ministry for Primary Industries (2025b).

49 Examples include wind throw; snowfall, floods, and drought; landslides; volcanic eruptions and geothermal events; earthquakes and tsunamis; pests and diseases; naturally caused fires; and accidental events (such as browsing by animals and controlled burns becoming uncontrolled).

50 See Ministry for Primary Industries (n.d.–b).

51 See Ministry for Primary Industries & Ministry for the Environment (2024); Office of the Minister of Agriculture and Forestry & Office of the Minister of Climate Change (2025).

52 For more information about the LUC system, see Manaaki Whenua Landcare Research (n.d.).

53 Under the CCRA, exempt Māori land includes: Māori customary or freehold land; general land owned by Māori that meets specified requirements; land held by a post-settlement governance entity, if the land was acquired as redress for the settlement of Treaty of Waitangi claims or by the exercise of rights under a Treaty settlement; land vested in the Māori Trustee that is constituted as a Māori reserve by or under the Māori Reserved Land Act 1955 and remains subject to that Act; land set apart as a Māori reservation under part 17 of Te Ture Whenua Maori Act 1993; a reserve under the Reserves Act 1977 that, under a Treaty settlement, is managed wholly or jointly by a Treaty settlement entity; land that forms part of a natural feature that has been declared under an Act to be a legal entity or person (including Te Urewera land within the meaning of section 7 of the Te Urewera Act 2014); or the maunga listed in section 10 of the Ngā Mana Whenua o Tāmaki Makaurau Collective Redress Act 2014.

54 An application for a transitional exemption must be submitted by 31 December 2027. See Ministry for Primary Industries (2026c).

55 This process consists of two ballots per calendar year, each offering permits to register forest on up to 7,500 hectares of LUC class 6 land. If a ballot does not allocate all its area, the proceeding ballot could offer a higher area. Each person receives one opportunity per land title to enter the ballot. Other people can use the same land title to enter the ballot. For more information, see Ministry for Primary Industries (2025a).

56 This is available from https://ourenvironment.scinfo.org.nz/maps-and-tools/app/Land%20Capability/lri_luc_main.

57 An unincorporated body can use a permit, provided at least 60% of the members are the same as when the permit was issued.

58 Extensions may be approved for up to six years in the case of a temporary adverse weather event, or if similar circumstances disrupt the registration of the land in the NZ ETS.

59 See Ministry for Primary Industries & Ministry for the Environment (2024); Ministry for the Environment & Ministry for Primary Industries (2025a); Ministry for the Environment (2026b).

60 The definition of natural (self-sown) forest excludes shelter belts, riparian strips, narrow woody vegetation, or tree weeds that do not meet specified criteria for the canopy cover, area, or height of forest (Ministry for the Environment, 2012).

61 Data on total forest area by LUCAS forest type were from the Ministry for the Environment, personal communication, 9 December 2025. Information on the methodology is available from MfE Data Service (2025). Note that methodological differences preclude the direct comparison of data from the LUCAS and NZ ETS reporting systems. While both systems use the same definition of forest, they apply different mapping standards and scales.

62 See Ministry for Primary Industries (2026b).

63 See Carver et al. (2022).

64 See Climate Change Commission (2023).

65 See Ministry for the Environment (2025h).

66 As of 2026, overseas units are not eligible in the NZ ETS.

67 Historically, this included units issued under NGAs, which are no longer in operation.

68 See the Climate Change (Auctions, Limits, and Price Controls for Units) Regulations 2020.

69 See https://www.etsauctions.govt.nz/.

70 See Climate Change (Auctions, Limits, and Price Controls for Units) Amendment Regulations 2025.

71 The end of the true-up period for the first commitment period under the Kyoto Protocol was 18 November 2015.

72 NGAs were part of the government's 2002 climate change policy package. They enabled exemption from the proposed carbon tax in return for a firm's commitment to a pathway representing world's best practice in emissions management. The two signed NGAs were honoured under the NZ ETS, which superseded the proposed carbon tax.

73 See endnote 46.

74 See Office of the Minister of Finance (2021).

75 See The Treasury (2025).

76 This is based on unit surrenders and private unit holdings as of 30 June in each financial year.

77 See Climate Change Commission (2022b).

78 See Office of the Minister of Climate Change (2022).

79 See Lawyers for Climate Action NZ Inc v Minister of Climate Change [2023] at 40–51.

80 See Lawyers for Climate Action NZ Inc v Minister of Climate Change [2023] at 54.

81 See Ministry for the Environment (2023b).

82 See NZX-EEX (n.d.–b).

83 See Climate Change Commission (2022b).

84 See Figure 2.1 in Climate Change Commission (2025a).

85 See Office of the Minister of Climate Change (2025b, 2025c).

86 These include current available scientific knowledge; existing and anticipated technological developments; the likely economic effects; social, cultural, environmental, and ecological circumstances, including differences between sectors and regions; the distribution of benefits, costs, and risks between generations; the Crown-Māori relationship, te ao Māori, as defined in section 5H(2), and specific effects on iwi and Māori; and responses to climate change taken or planned by parties to the Paris Agreement or to the Convention.

87 Ministry for the Environment (2025f).

88 Prior to amendments in December 2025, unit supply settings were also required to accord with NDCs.

89 See Climate Change Commission (2025a); Ministry for the Environment (2025a).

90 See Ministry for the Environment (2025g). To request the model, send an email to etsconsultations@mfe.govt.nz.

91 Due to the impacts of COVID-19, firms could choose to exclude data from either 2019/20 or 2020/21 when determining allocative baselines. Note that new entrants in new sectors can be accommodated.

92 For example, see Electricity Authority (2025).

93 See Ministry for the Environment (2024c).

94 See Ministry for the Environment (2026a); Office of the Minister of Climate Change (2025b, 2025c).

95 See Rontard & Leining (2021).

96 In the wholesale electricity market, the marginal generator, which is the last one needed to meet demand at a given time, sets the wholesale electricity price. See Transpower (2026).

97 An exception applies to the Tiwai Point Aluminium Smelter due to the nature of its electricity contracts.

98 See Ministry for the Environment (2019, 2021b).

99 See Acworth et al. (2020); Partnership for Market Readiness & International Carbon Action Partnership (2021).

100 See Rontard & Leining (2021).

101 See Ministry for the Environment & Ministry for Primary Industries (2020).

102 See Ministry for the Environment (2021b, 2022b).

103 See Environmental Protection Authority (2025b).

104 Imported ERUs, CERs, and RMUs were eligible for compliance in the NZ ETS, subject to some restrictions on sources. As of mid-2015 (before de-linking from the Kyoto market), the following types of Kyoto units were excluded from the NZ ETS: imported AAUs, tCERs, lCERs, and CERs or ERUs from industrial-gas, large-scale hydro, and nuclear projects.

105 See Kerr et al. (2021); Leining et al. (2019); Leining, Ormsby, et al. (2017).

106 The fourth MERP went from 2023 to 2025.

107 Unique emissions factors can apply to the following activities: owning obligation fuel; purchasing obligation jet fuel; importing, mining, or purchasing coal; purchasing natural gas; using geothermal fluid; combusting waste products; or operating a waste disposal facility.

108 Infringements before 1 January 2021 were subject to the previous non-compliance measures as at 31 December 2020.

109 See Ministry for the Environment (2025c).

110 See the Climate Change Response (Infringement Offences) Regulation 2021.

111 See Environmental Protection Authority (2025a).

112 See Ministry for the Environment & Ministry for Primary Industries (2020).

113 See https://emissionsregister.govt.nz.

114 See Office of the Minister of Climate Change (2025b, 2025c).

115 See Office of the Minister of Climate Change (2025d).

116 See Ministry for the Environment (2025d).

117 This is now the Ministry of Business, Innovation and Employment.

118 This is now the Ministry for Primary Industries.

119 See Ministry for the Environment (2021a).

120 See Cabinet Economic Development Committee (2023); Office of the Minister of Climate Change (2023b).

121 See Ministry for the Environment (2016).

122 See the World Bank Open Data page for New Zealand.

123 See Ministry for the Environment (2025e).

124 See Climate Change Commission (2025b).

125 See Carver et al. (2022); Ministry for the Environment (2016).

126 For more information on the methodology, see MfE Data Service (2025).